

HOUSE OF COMMONS
Fifth Report from the
**INDUSTRY AND TRADE
COMMITTEE**
Session 1981-82

THE POST OFFICE

Together with the proceedings of the Committee relating
to the Report, the Minutes of Evidence and Appendices

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The Industry and Trade Committee is appointed under SO No 86A to examine the expenditure, administration and policy of the Departments of Industry and Trade and associated public bodies, and similar matters within the responsibilities of the Secretary of State for Northern Ireland.

The Committee consists of a maximum of eleven members, of whom the quorum is three.

The Committee shall have power:—

- (a) To send for persons, papers and records, to sit notwithstanding any adjournment of the House, to adjourn from place to place, and to report from time to time;
- (b) to appoint persons with technical knowledge either to supply information which is not readily available or to elucidate matters of complexity within the Committee's order of reference.

Unless the House otherwise orders, all Members nominated to the Committee continue to be members of the Committee for the remainder of the Parliament.

MONDAY 26 NOVEMBER 1979

The following were nominated as members of the Industry and Trade Committee:—

Sir Donald Kaberry	Mr Russell Kerr
Mr Kenneth Carlisle	Mr Thomas McNally
Mr Eric Cockeram	Mr Robin Maxwell-Hyslop
Mr Stan Crowther	Mr Ian Mikardo
Mr Peter Emery	Mr Donald Thompson
Mr Derek Foster	

Sir Donald Kaberry was elected Chairman 4 December 1979

The following changes in the membership of the Committee have been made: Friday 16 January 1981: Mr Donald Thompson discharged; Mr James Hill appointed.

Friday 4 December 1981: Mr Kenneth Carlisle discharged; Mr Martin Stevens appointed.

The cost of preparing for publication the Shorthand Minutes of Evidence taken before the Committee was £616.94.

The cost of printing and publishing this Report is estimated by Her Majesty's Stationery Office at £10,836.

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FIFTH REPORT

The Industry and Trade Committee have agreed to the following Report:

THE POST OFFICE

Introduction

1. The Post Office Corporation was formed on 1st October 1981 by vesting those assets relating to the businesses of the Post Office that were separated from the telecommunications business by the British Telecommunications Act 1981. On the basis of the Accounts for the year ended March 1981, the net assets employed in the Corporation were £530 million, income was £2,281 million and the profit retained after interest and depreciation was £21.5 million. Total employment was 184,911.¹ The Post Office's business includes posts, postal orders, Girobank and agency services.

2. The 1981 Act amends in some respects the 1969 Act by which the Post Office (including telecommunications) was established as a public corporation. Previously posts and telecommunications had been a department of Government. The main duties that are laid on the Corporation are: to undertake the conveyancing of letters throughout the United Kingdom,² and to have regard to efficiency and economy, the social, industrial and commercial needs of the nation, the desirability of improving and developing operating systems and developments in the fields of communications and banking.³

3. The 1969 Act (as amended) empowers the Corporation to provide postal and banking services and other services for the remittance of money and to provide services for British Telecommunications, HM Government, other Governments and local authorities.⁴ It is also empowered to undertake other activities, including manufacture, in order to exercise its primary powers.⁵

4. The Secretary of State may give directions of a general nature to the Corporation,⁶ and has powers of approval over construction, manufacture and purchase by the Corporation.⁷

5. Statutory representation of customers is by the Post Office Users' National Council (POUNC) which continues to have responsibility for telecommunications,⁸ although the activities covered by the Council may be limited to those over which the Corporation has a statutory monopoly.⁹

6. The 1981 Act reduced the extent of the Corporation's statutory monopoly (exclusive privilege over the conveyancing of letters)¹⁰ by broadening the acts that do not infringe the privilege,¹¹ by defining the meaning of 'letter',¹² and by

¹In addition there were 20,894 sub-postmasters employed on an agency basis.

²Section 59(1).

³Section 59(2).

⁴Section 7(1) 1969 as amended by Section 59(1) 1981.

⁵Section 7(2) 1969.

⁶Section 11 1969 as amended by Section 62 1981.

⁷Section 64(1) 1981.

⁸Section 9.

⁹Section 65.

¹⁰Section 66(1).

¹¹Section 67(1).

¹²Section 66(5).

empowering the Secretary of State to license acts that fall within the exclusive privilege.¹ The Secretary of State has subsequently taken steps to relax the monopoly on time sensitive and valuable mail; the delivery of Christmas cards by charities, and document exchanges.² Other activities also fall outside the monopoly, the chief ones being air couriers; part carriage of mail; business group mail; banking instruments and electronic mail.³

7. The financial duties placed upon the Corporation are to meet all costs properly chargeable to revenue account, taking one year with another,⁴ and to make appropriate allocations to reserve.⁵

Our inquiry

8. We decided that following the split between British Telecommunications and the Post Office the time was ripe for us to conduct a short inquiry into the current position of the Post Office as it is now constituted. We heard evidence from the Chairman of the Post Office, Mr Ron Dearing, and from some of his senior colleagues; from Mr Kenneth Baker MP, the responsible Minister at the Department of Industry; from representatives of the Post Office Unions, from the Post Office Users' National Council and from the Mail Users' Association and from private competitors, the Association of International Air Courier Services and Securicor Ltd. We were assisted in our work by Mr T. A. J. Cockerill, a senior lecturer at the University of Manchester Institute of Science and Technology. To Mr Cockerill and to our witnesses we wish to express our thanks for their assistance in our inquiry.

Conflicting Duties

9. The Corporation is charged with providing a postal service throughout the whole of the UK and with providing services for HM Government, amongst others. Its financial duties require it to break even on revenue account, taking one year with another. Government policy at present is to require the Corporation to make a return on turnover each year of 2 per cent and to pay £25 million to the Treasury in 1982-83 under the external financing conventions.⁶ It is clear to us that the service obligations placed on the Corporation may conflict with a financial policy requiring a revenue surplus to be made on the total of current and capital expenditures.

10. The conveyance and delivery of letters over long distances and to remote areas must in many instances involve costs in excess of the revenue generated directly. Some post offices do not generate sufficient income from their customers to cover their costs. The network of post offices plays a vital role in providing facilities for welfare payments and other social services. Requiring the Corporation to cover its full costs from revenue therefore inevitably means that some parts of the postal system are subsidising others. In these circumstances, appraising the performance of the Corporation without taking account of the social service element is impossible.

Relationship with the Department of Industry

11. The issue of conflicting objectives is clearly seen in the relationship between the Corporation and its sponsoring Department. We were told that a comprehen-

¹Section 68(1).

²Evid. p. 36, para. 9.3.

³Evid. p. 36, para. 9.2.

⁴Section 71(1)a.

⁵Section 71(1)b.

⁶i.e. a negative EFL.

sive and continuing monitoring system had been established.¹ Surveillance by the Department of the Corporation seems to be intense. We question, as we have done in previous inquiries, whether this is necessary or desirable. If the Corporation is to be run as a fully commercial enterprise, as seems to be the Government's intention, the Corporation's management should be set firm and consistent targets on an annual basis and be required to report at regular intervals. There should be no need for continual scrutiny. Our view is that the scrutiny by the Department of Industry of the Post Office's activities is too detailed and too intrusive for a body which is supposed to be run as a commercial enterprise.

12. We are left with the firm impression that since the separation of the Post Office and British Telecommunications there has been a return to a form of financial and managerial control in the Post Office similar to that exercised when the Corporation was a Government Department. The Corporation's obligation to meet the total of its annual expenditures from current revenue is a direct reflection of that attitude.

Finance — External Financing Limits

13. In common with other nationalised industries, the Post Office's access to external funds is governed by its External Financing Limit (EFL), set administratively each year by the Treasury. There are separate allocations within the total² for Posts and Girobank. In each year from 1975–76 to 1980–81, negative EFLs were set as a result of which the Post Office was a net contributor to the Exchequer.³ A positive EFL of £23 million was set for 1981–82, but there has been a return to a negative EFL in the current year, 1982–83, of £25 million.

14. The Minister of State told us that the EFL was an important means of control by Government over nationalised industries.⁴ We have no doubt that this is so in the case of the Post Office, but we are concerned about the impact on the Corporation's activities of the persistent application of negative EFLs. These require the Corporation each year to generate a surplus of revenue over its current and capital expenditures; in other words, to be entirely self-financing and pay the surplus to Government. In order to achieve this in present circumstances, the Post Office may raise its tariffs, attempt to contain increases in operating costs or reduce capital spending.

15. We discuss below (para. 21) the effect of this procedure on investment. Here we note that the EFL will tend to encourage the Post Office to raise its tariffs more frequently and by larger amounts than would otherwise be the case. The probable effect on operating costs is doubtful: if tariff increases are limited and capital spending maintained, there will be severe pressure to contain current costs. But if budget over-runs can be recouped fairly easily by raising tariffs or by cutting investment expenditure, the discipline will be much less. The EFL system is a crude and indiscriminate method of financial control. Its weakness in regulating unit costs is recognised in the case of the Post Office by the introduction of real unit cost targets (see paras. 27–29 below).

16. Another aspect of EFL control that causes us concern is the Treasury's treatment of EFL targets and financial surpluses. The surpluses generated as a result of the negative EFL are invested in the public sector. If the target surplus is exceeded, the additional funds go to reduce government borrowing. As has been

¹Evid. p. 32, para. 3.

²Evid. p. 34, para. 5.4.

³Evid. p. 34, para. 5.5.

⁴Q. 133.

made plain to us, the funds are not available to the Post Office for capital expenditures in future years. But if the surplus target is not met, the Corporation is required to make good the shortfall in subsequent years.¹ A parallel has been drawn with the dividend paid by a company in the private sector,² but the Corporation has no equity funds and a considerable part of its reserves is deposited with the Treasury. A more exact comparison seems to us to be with a tax on postal users. We are unable to find a basis in equity for such a tax. As we have said above, the Post Office provides a range of services that are of significance to the community: it is not clear to us why the public should make a contribution to the Exchequer in addition to meeting the full costs of the service.

17. The application of negative External Financing Limits is not appropriate to the Post Office. We recommend that the Government should cease applying them to the Post Office. If, nevertheless, it is considered that a dividend should be paid, equity capital in the form of Public Dividend Capital should be made available. If revenue is to be extracted from Girobank, it should also be done by means of dividend.

Investment

18. The Post Office's capital expenditure is low in relation to annual turnover. In 1980/81 it was £76 million, or 34 per cent of the total income of £2125 million. Capital expenditure averaged £63.9 million (at 1980/81 prices) over the five years from 1976/77, but there was a substantial increase in 1981/82.³ Some part of annual capital expenditure is required to maintain the system at its present level of operation; one reason for the increase in expenditure was the assumption by the Post Office of full responsibility for its property assets.⁴

19. According to the Post Office, £700 million will be required over the next five years for capital expenditures. Much of this (about three-quarters of the total) is needed to improve the efficiency of operations. Completing the mechanised letter sorting programme in main offices will require £140 million or one-fifth of the total. The Government's policy on EFLs together with restrictions on access to the Corporation's reserves means that this programme will have to be reduced by between 30 and 40 per cent, with consequent adverse effects upon operating efficiency and the level of service.⁵

20. These restrictions can be overcome by increasing tariffs, thereby raising the return on turnover and the level of internal cash flow, or by relaxing the EFL so that external funds may be obtained. It is clear from the evidence that we have received that much of the future investment programme can be regarded as a once and for all requirement to take advantage of new technology and raise operating efficiency and standards of service. The rate of progress with mechanised letter sorting has been disappointingly slow so far,⁶ but the Corporation clearly intends to speed up the rate of progress in the future. It is also the case that many of the benefits from mechanisation will be obtained only when the whole of the investment programme is completed.⁷ In such circumstances, if the discounted rate of return meets the investment criterion, or if there are substantial social benefits there is no justification on economic or financial grounds for delay.

¹Evid. p. 2, para. 2.2, Qs. 20-21, 24.

²Q. 147.

³Evid. p. 33, paras. 4.1-4.2.

⁴Evid. p. 33, para. 4.2.

⁵Evid. p. 4, para. 6.3.

⁶Q. 26.

⁷Ibid.

Putting back the investment programme, or spreading it out over a longer period of time, delays the time when the full benefits of the investment will be received. These benefits may take the form of higher internal efficiency within the Corporation and a lower level of tariffs than would otherwise have been the case. At the same time the total financial cost of the programme will be increased through the effects of inflation, and partly completed investments will not be fully remunerated.

21. It is clear to us that the Government's financial policy towards the Post Office is the main factor in delaying and reducing the investment programme. If the Corporation had access to external funds, as a result of a positive EFL, or to its own reserves, the investment programme could be completed sooner. At the present time, the whole of each year's capital expenditures has to be met out of current income. This is a damaging condition and one that is not imposed on companies in the private sector. Moreover, the proposed investment will confer benefits on future postal users, by way of better service and/or lower tariffs. It is hard to justify the present position, in which the costs of obtaining these future benefits are fully met by present users. If the Post Office were to borrow to meet the costs of all or of a substantial fraction of its capital expenditures, the burden of servicing the debt would be spread over a number of years, rather than falling fully upon present users of the postal system. In addition the Post Office could use some of its accumulated reserves. We conclude that there is a need for increased capital investment by the Post Office particularly to ensure completion of its mechanisation programme. This should be financed otherwise than by increased tariffs.

Reserves

22. The Post Office and the unions have both made a case for sustaining the investment programme by making use of the Corporation's accumulated reserves.¹ At the end of March 1981 these stood at £230.5 million. As the memorandum from the Department of Industry makes plain, these are not all liquid assets that can be encashed and applied on demand. But there is between £100 and £200 million that is lent to the public sector on a short-term basis at commercial rates of interest.² These funds could in principle be recalled and used for capital formation purposes.

23. The Government does not permit this, however, for reasons which defy logic. The Post Office at present falls within the category of nationalised industries that are making 'temporary' surpluses, and the sums generated each year are therefore invested elsewhere in the public sector.³ It would seem logical that in any subsequent year they could be drawn down and used for internal purposes within the Corporation. But this is not permitted since in the view of the Department of Industry (and no doubt also of the Treasury) withdrawal 'has external financing implications similar to those of borrowing from the Government or from the market'.⁴ In other words, the public sector funds have to be replaced. This may be relevant from the standpoint of management of the economy, but it is manifestly not so from the point of view of the Post Office, which is expected to be run on strictly commercial lines. The inability to have access to its own reserves held as short-term liquid assets is equivalent to a bank refusing to allow a customer to withdraw his deposits because the bank would need to raise money from elsewhere. No private sector company would be treated in this way.

¹Evid. p. 4, Qs. 26, 27, 358.

²Evid. p. 138, para. 3.

³Evid. pp. 137-8, paras. 2 and 3.

⁴Evid. p. 138, para. 5.

24. We accept that Government has the power and the right to approve the Corporation's capital expenditures. It also exercises control through the EFL. But it is perverse to deny the Corporation discretion over access to its accumulated liquid reserves, and the present procedure should be modified by allowing the Post Office to increase its borrowing for capital investment purposes and to give it access to its accumulated reserves, at least so far as they are represented by liquid assets. We therefore recommend that the Post Office should be allowed unrestricted access to its accumulated reserves, at least to the extent that they are represented by liquid assets. We further recommend that the Post Office be allowed, as required by statute, to pay its way "taking one year with another" and "to make appropriate allocations to reserve". The removal of surpluses by HMG and the carrying forward of shortfalls is intolerable.

Pension Fund

25. Following the separation of the Post Office from British Telecommunications, each Corporation has established its own pension fund with its own trustees, but they have a joint investment committee.¹ Pensions are index-linked,² and the Post Office fund has an actuarial deficiency that is being amortised over the period to 1992 by a contribution equal to 3.5 per cent of earnings.³ The Corporation has the responsibility for making good deficiencies in the pension fund, and this liability is not, in law, underwritten by the Government.⁴ If the Corporation's resources were insufficient to meet the liabilities of the fund it would need to borrow from the Government.⁵

26. We note the uncertain nature of the Corporation's liability and the present deficit on the pension fund, and we shall continue to monitor progress in eradicating it.

Unit Costs

27. Since 1978, following a recommendation of the Carter Committee, the Post Office has been set by the Government a target for regulating its real unit costs (RUC).⁶ The first target which was set required Posts to keep RUC constant over the five years from 1977-78 to 1982-83.⁷ In the event, RUC have risen (by about 3 per cent over the whole target period)⁸ in part due to wage movements following the ending of centrally operated national wage policies.⁹

28. The Secretary of State announced recently that over the three years 1981-82 to 1984-85, RUC will be reduced by 5 per cent, 2 percentage points of which are to fall in 1982-83.¹⁰ The Post Office Chairman accepted these figures without demur¹¹ but it is obvious that this represents a severe tightening of the performance aim. Posts may seek to control RUC by increasing the volume of business, which will raise income in constant price terms, and by containing cost

¹Q. 2.

²Q. 4.

³Q. 10.

⁴Qs. 2, 5, 6.

⁵Q. 5.

⁶Cmnd. 7292, para. 47. The Chairman of the Post Office defined real unit costs as "the income from the previous year increased or decreased by the change in volume this year from the end of last year, divided into the current year's expenditures, deflated by the rise in the retail price index." (Q. 30 and corrigendum).

⁷Evid. p. 34, para. 5.6.

⁸Evid. p. 2, para. 2.3.

⁹Ibid.

¹⁰Evid. p. 34, para. 5.7, and Hansard Statement 25 February 1982, col. 445W.

¹¹Q. 49.

increases. Three-quarters of current expenditures are labour costs; thus the main way in which expenditures may be controlled is by limiting earnings increases to no more than the rate of price inflation, and by raising productivity.

29. We agree with the Post Office and the Department of Industry that all practicable steps must be taken to increase efficiency in Posts and to maintain those improvements. RUC targets are one way to try to achieve this. But we are concerned at the sharp reduction in RUC that is being required at a time when the volume of mail is increasing only slightly, if at all. The Department should consider easing the RUC objective until the increase in the level of economic activity, and hence the demand for postal services, is more firmly established.

Industrial Relations

30. The Post Office staff unions are members of the Post Office Unions' Committee (POUC), a coordinating body that represents nearly 180,000 staff and negotiates on their behalf on matters relating to conditions of work, except pay.¹ The National Federation of Sub-Postmasters is also represented on POUC.

31. We formed the impression that relations between staff and the management of the Corporation are generally good, despite the termination in December 1979 of the industrial democracy experiment (under which staff members were represented on the Board of the Corporation) and the policy of 'firm management' that has been adopted.²

32. We were given a number of examples of effective cooperation between the staff unions and management designed to improve the efficiency of the Corporation and to increase its business. Agreement has been reached on the recruitment of postal cadets, to encourage young people to enter the Corporation and to ease recruitment difficulties,³ and on conveyance and delivery of unaddressed mail (the Household Delivery Service).⁴ These are encouraging developments and we welcome them.

33. POUC indicated its concern over the decline in overseas mail, with effects on staffing at certain offices in which this traffic is particularly important.⁵

34. There have been delays over mechanisation despite the stated willingness of the unions to cooperate.⁶ POUC suggested that agreements on manning should have been reached before mechanisation schemes were implemented.⁷

35. We do not doubt the commitment of staff and their representative unions to the development and commercial success of the Corporation. We note that POUC has made constructive suggestions as to ways in which the business might be expanded and diversified.⁸ Continued improvements in efficiency and the standard of service will require these good and cooperative relations between staff and management to be maintained. Overall the evidence we received indicated that the present state of industrial relations in the Post Office is good.

¹Evid. p. 99

²Evid. p. 102, para. 8 and Evid. p. 7, para. 10.1.

³Evid. p. 102, para. 7.

⁴Ibid.

⁵Evid. p. 99, para. 2.3.

⁶Qs. 362-366.

⁷Q. 368.

⁸Q. 373.

Productivity

36. Since 1979-80, following a prolonged period in which mails productivity fell,¹ there has been a marked improvement in productivity nationally, especially in the Inner London Postal Area, which had been the subject of an inquiry by the Monopolies and Mergers Commission.² Even now, however, the level of productivity is still below what it was in 1970. Productivity increases are one way in which cost and tariff increases can be contained to the benefit of postal users and to increase the demand for postal services. Much of the improvement can be attributed to the Improved Working Methods (IWM) scheme,³ coupled with firm management.⁴ We welcome the cooperation between management and staff that has brought this improvement about, and we shall look for sustained progress in the future. We are glad to note that productivity in the Post Office is improving but we look for further improvement.

Tariffs

37. Shortly before our inquiry began postal tariffs rose by an average of 9.3 per cent.⁵ Over the last decade, postal tariffs have increased at a slightly lower rate than that of inflation as a whole,⁶ although some witnesses questioned the basis on which the increases in tariffs were calculated.⁷ There have been occasions within the whole period in which tariff increases have been greater than the prevailing rate of inflation,⁸ but the Chairman has agreed with Government that in future efforts will be made to confine tariff increases to rates below that of inflation, and for increases to take place not more than once a year.⁹

38. The differential between first and second class mail is an important aspect of pricing policy both for the Corporation and for postal users. The representatives of postal users argued consistently for the differential to be widened.¹⁰ This would indicate more clearly the differences in standard of service between the two classes of mail, and would tend to reduce the volume of premium mail somewhat, thereby helping service standards in that sector to improve.¹¹ There is evidence that an increase in the differential does result in shifts in demand between the two classes of mail.¹²

39. We have noted that the Post Office has been able to introduce discount schemes for bulk mail users. Insofar as this reflects real resource savings made possible by the volume of mail, we welcome it as an indication of the Corporation's effective marketing. We should be concerned, however, if there were any subsidisation of bulk mails by other classes of mail.

40. While we agree that the rate of increase of postal tariffs is a useful performance indicator, we are concerned that it is not possible to identify the principal influences underlying any increase. The volume of mail in relation to the level of underlying costs is one of these, but Government policy is another. Postal tariffs, which contribute the bulk of Posts income, are very sensitive to costs and

¹Evid. p. 35, para. 7.2.

²HC 515, Session 1979-80.

³Evid. p. 35, para. 7.1.

⁴Evid. p. 7, 10.1.

⁵Evid. p. 3, para. 4.1.

⁶Evid. p. 35, para. 8.1.

⁷Evid. p. 79, para. 2.2.

⁸Evid. p. 35, para. 8.1.

⁹Ibid.

¹⁰Qs. 279-281.

¹¹Evid. p. 136, para. 6.

¹²Evid. p. 136, para. 5.

the level of capital expenditures and consequently to the financial target and the self-financing requirement placed on the Corporation by the EFL. We are sure that the public are not aware of this connection. As we have argued above (para. 20), a more conventional approach to financing would probably allow the rate of tariff increases to be reduced.

41. We have also noted that the main influence of the Post Office Users' National Council (POUNC) has been to delay for a short period intended tariff increases. We doubt whether these short delays have given any real benefits to users, while they have undoubtedly damaged the Corporation's short-term financial position.

42. We welcome the policy of the Corporation, revealed in the last two tariff increases, of widening the differential between the two classes of letter post. In addition to the reasons advanced by our witnesses, it is to be hoped that any shift in the volume of mail towards second class post will help to make the workload more even, thereby increasing productivity, raising performance standards and helping to contain cost increases. We welcome the efforts of the Post Office to keep tariff increases to a minimum. We recommend that the differential between first and second class mail be constantly reviewed so as to improve performance and contain increases in tariffs.

Performance

43. The quality of service index, showing the proportion of each class of letter post delivered by specified days after posting is one of the most significant non-financial indicators of performance. After reaching low levels in the summer of 1979,¹ there have been marked improvements in the standards of delivery for both classes of mail.² However, the improvement has been more marked for second than for first class mails³ and both are below the internal targets set by the Corporation.⁴ The quality of service for first class mail has not yet regained the levels reached in the mid-1970s.⁵

44. Averages such as these do not reveal variations between areas of the country or between days of the week. The standards of performance reached still give cause for concern in our view and we shall expect to see continued improvement in the future.

Agency Services

45. In 1980-81 21.6 per cent of the income of the Post Office came from payments for Agency Services,⁶ amounting in total to some £459 million: of this sum £287 million was received from Government Departments. The Government Departments account for some 60 per cent by volume of the business at Post Office counters, and of that 60 per cent almost two thirds comes from the Department of Health and Social Security.⁷ The National Girobank (including banking and postal orders) accounts for another 17 per cent.⁸ This is an area where business may increase and is one of particular interest to sub-postmasters.⁹

¹Evid. p. 34, para. 5.8.

²Evid. p. 7, para. 9.1.

³Evid. p. 34, para. 5.9.

⁴Evid. p. 65.

⁵Ibid.

⁶Evid. p. 4.

⁷Q. 74.

⁸Q. 75.

⁹Evid. p. 38.

46. In their memorandum the Department of Industry told us that the Post Office receives an on-cost margin of 4 per cent under an agreement between the Post Office and the Government.¹ This agreement was being re-negotiated at the time we took evidence on it.² It is of the utmost importance that this figure be fixed at a fair level. In view of the importance of agency services to the health of the Post Office business we hope that there will be a satisfactory outcome to the negotiations on the level of commission.

Sub-Post Offices

47. The Post Office conducts its business with the public by way of some 1600 Crown Offices and nearly 21,000 sub-offices.³ Between them they cover all parts of the kingdom and constitute by far the largest retail network. In the larger towns the Crown Offices predominate, but in the suburbs and especially in the rural districts the only Post Office presence is by way of sub-post offices. Each sub-post office is to be found on premises provided by the sub-postmaster, and he is paid either by a fixed annual sum in the case of the so-called Minimum Payment Offices⁴ or by a sum calculated on the number of transactions (each transaction has a unit value assigned to it).⁵ Out of these gross sums the sub-postmaster has to provide and maintain his premises and staff engaged on Post Office business.

48. The network of sub-post offices is a valuable asset to the Post Office and has enormous potential if intelligently exploited. We were told that the sub-postmasters, for their part, are eager to provide additional services.⁶ They are, however, deeply concerned at the increasing number of criminal attacks on sub-post offices and on those who work in them. We were glad to learn that the National Federation of Sub-Postmasters and the Post Office management were acting in concert to improve security⁷ and to be informed by the Chairman of the Post Office of the additional measures being taken to that end.⁸

49. When the then Secretary of State for Health and Social Services (who incidentally is now the current Secretary of State for Industry) announced in the House on 12th May 1981 the altered arrangements for drawing social security benefits from Post Offices, he stated that the loss of income which would result to sub-postmasters as a result of these changes would be more than compensated for by the growth of other business.⁹ We are not aware that anything of practical value to the sub-postmasters has emerged.

50. One source of revenue which many sub-postmasters wish to have is the sale of motor vehicle licences. For the public this would be a great convenience particularly since the closure of many Local Vehicle Licensing Offices by the Department of Transport. The total number of sub-post office outlets is fixed by the Department of Transport, and their distribution is determined by the Post Office. We recommend that the Government should give some substance to the commitment to provide new sources of income for sub-post offices by permitting all sub-postmasters who are prepared to issue motor vehicle licences, to do so.

51. We recognise the importance of sub-post offices to the success of the Post

¹Qs. 93-5.

²Q. 87.

³PO Report and Accounts 1980-81, p. 36.

⁴Evid. p. 101, para. 6.3.

⁵Evid. p. 101, para. 6.5.

⁶Qs. 388-90.

⁷Q. 405.

⁸Evidence not printed.

⁹Official Report, 12 May 1981, col. 618.

Office business. We would welcome any increase in the scope and volume of transactions which they undertake. We look forward to the successful outcome of the security measures now being put in hand by the Post Office.

52. One important issue is the division of commission payments between the Post Office and its sub-postmasters. At present that division is the product of negotiations between them. There is, however, a danger that these negotiations may not lead to an equitable outcome. Mr Dearing told us that the division was "of the order of fifty fifty", but there were wide variations.¹ We recommend that the Secretary of State should conduct a detailed examination, preferably by the appointment of an independent firm of accountants, to see whether the present division of commission payments between the Post Office and sub-post offices is just and appropriate on commercial grounds and whether or not it unreasonably impedes the development by sub-post offices of new forms of business.

Girobank

53. We received from the Post Office management and from the Department of Industry figures showing the trend of growth in the activities of Girobank over recent years and projections of continued future growth.² In particular we were told that "Girobank has (a) nearly 1 million or about 4 per cent of UK current bank accounts; (b) 34 per cent of Nationalised Industry and Public Corporation Receipts; and (c) 21 per cent of all local authority rent collections". It is significant that two thirds of Girobank counter business is transacted at sub-post offices.³ We were pleased to learn of the continued expansion of the activities of the National Girobank.

Derogation of Monopoly and Competition with the Private Sector

54. Before 1981 the statutory postal monopoly covered the receipt, collection, conveyance and delivery of letters but not parcels or newspapers. However, in July 1980 the Secretary of State made a statement in the House outlining certain measures to clarify the law and to introduce competition. These included allowing air courier services, part-carriage of mail, business group mail and conveyance of banking instruments; the Post Office monopoly was not extended to electronic mail.⁴

¹Qs. 83-84; these variations are shown in the following Table provided by the Post Office:

PAYMENTS TO SUBPOSTMASTERS

Transaction	Column A Payment to SPmr	Column B Charge to department	Payment to SPmr % (A/B %)
Retirement pension	10.5	25.2	41.7
Postage stamps sold*	11.3	11.8	95.8
Child benefit	7.0	13.2	53.0
Unemployment benefit: DHSS girocheques	12.2	26.4	46.2
Postal orders issued	5.2	20.9	24.8
SB deposits (ord + investment account)	22.7	74.4	30.5
Girobank outpayments	14.8	40.3	36.7
Telephone accounts paid	17.5	39.3	44.5
Group II supplementary benefit	10.5	24.3	43.2
SB withdrawals (ord + investment account)	22.7	82.2	27.6

(*per £1 of postage stamps sold.)

¹Evid. pp. 5, 6 and 39-42.

²Evid. p. 39.

³These measures and also the Derogations from the Monopoly are more fully described in the Evidence at pages 36-37.

55. In November 1981 steps were taken to suspend the postal monopoly in respect of time sensitive/valuable mail and also to permit charities to deliver Christmas cards. A general licence to permit document exchanges to transfer mail between themselves was published in April 1982. The volume of Post Office traffic and revenue put at risk by all these measures (except Christmas cards) is estimated by the Department of Industry to be 1-2 per cent of total traffic.¹ The Department of Industry told us that "there is no evidence that long-term growth prospects have diminished as a result of recent legislation".² This was also the view of the Association of International Air Courier Services who, in their memorandum describing their activities and their competition with the Post Office, said: "There can be no question of air couriers damaging Datapost's business or affecting Post Office employment".³ As it happens in this rapidly expanding type of business there is room for both the public and private sectors to grow independently and not one at the expense of the other. Although experience of the derogations from the postal monopoly allowed in 1981 has been short we were reassured by the evidence we received of the initial effects.

56. The situation however is not so happy in some European countries as is evidenced by the additional memorandum we received from the Association⁴ setting out some of the difficulties which they meet. There is a need for the adoption of a uniform practice throughout the European Community and we were glad to learn of the support which HMG is giving to the Association. We recommend that HMG should continue to support the independent air couriers in their endeavours to secure equitable treatment in other Community countries.

Prospects and Marketing

57. The future prospects of the Post Office businesses depend on two groups of factors:—

- (i) the levels of the financial targets set by the Government for return on turnover, External Financing Limit and the reduction in real unit costs (all these subjects are discussed above);
- (ii) the success of the Post Office in marketing, both in extending its existing business and in undertaking new business.

58. The Post Office indicated to us that their target for the next quinquennium is to increase letter volume by 1 per cent per year by making special efforts in financial mail (bills, etc) and Direct Mail.⁵ In parcels they look to maintain their market share and to increase the volume as parcels traffic generally is expected to expand.⁶

59. Additional Agency Services are also expected to make a larger contribution.⁷ There is scope for providing new services and also to stock and sell new materials.

Properties

60. The Post Office has a large holding of land and buildings, many of them in prime sites, in the main streets of our cities and towns. These are shown in the Report and Accounts for 1980-81 at their historic cost at 31 March 1981 of £336.5

¹Evid. p. 37; Qs. 112 and 228-232.

²Evid. p. 137.

³Evid. p. 119.

⁴Evidence not printed.

⁵Evid. p. 4.

⁶Evid. p. 5.

⁷Ibid.

million. The supplementary current cost statement puts their net replacement cost at the same date at £1189 million.¹ This may well be an under-statement because, as the note on valuation of assets explains, this figure is arrived at "by applying appropriate indices". We welcome the arrangements which are in hand for a professional valuation to be made of all non-specialised property owned by the Post Office so as to comply with the Statement of Standard Accounting Practice no. 16 "Current Cost Accounting". We look forward to seeing these valuations reflected in the Accounts of future years but for the present we should like to be assured that the best possible use is being made of these valuable sites. If any of these buildings are located where they are no longer required or could more conveniently be placed elsewhere they could no doubt be disposed of to the great advantage of the finances of the Post Office—always provided that the Post Office is allowed to retain for its own use the proceeds of the sale. Meanwhile we stress the importance of the Post Office's making the fullest economic use of its very considerable holding of land and buildings. Furthermore wherever practical the Post Office should brighten up and make the facades of its sites more attractive to the public.

POUNC

61. In the memorandum which they submitted to us the Post Office Users' National Council said, "our prime duty is to ensure that the Post Office is managed in the interests of its customers".² Later in the same memorandum they expressed the opinion that "there is... increasing evidence that the Post Office is now paying a great deal of attention to the needs of customers".³

62. The Council devotes much of its efforts to dealing with complaints received by it⁴ and, in the area of policy, with making representations designed to keep increases in tariffs as low as possible or alternatively to postpone the dates at which increases come into effect. They claimed success in both respects. At the same time their then chairman, Mr Morgan, said in answer to a question that the Council must "plead guilty of neglect"⁵ in failing to make representations on the need for more capital investment by the Post Office. The Council's representatives proposed the setting up by them of what they described as a "customer audit"⁶ meaning apparently a continuing review of the Post Office's performance. It appears to us that this sort of exercise is already an essential part of their function if they are to make an informed critique of the Post Office's proposals about tariffs. It is a task they should have constantly been carrying out.

63. The Council explicitly divested itself of any concern for areas of the Post Office's business removed from monopoly control.⁷ "POUNC's view is that where competition exists the discipline of the market place should provide the safeguard for customers".⁸

64. In conclusion we recommend that HMG review the constitution of POUNC with a view to making it a more potent and effective body.

¹Extracts from Post Office Reports and Accounts 1980-81, p. 71.

²Evid. p. 65.

³Ibid.

⁴Q. 263 "80 per cent of the staff are employed full time dealing with complaints".

⁵Q. 270.

⁶Evid. p. 66 and Qs. 290-296 and Evid. p. 130.

⁷Evid. p. 66.

⁸Ibid. and Q. 289.

Conclusions and Recommendations

1. The scrutiny by the Department of Industry of the Post Office's activities is too detailed and too intrusive for a body which is supposed to be run as a commercial enterprise. (paras. 11 and 12)
2. The application of negative External Financing Limits is not appropriate to the Post Office. We recommend that HMG should cease applying negative EFLs to the Post Office. (paras. 14-17)
3. There is a need for increased capital investment by the Post Office particularly to ensure completion of its mechanisation programme. This should be financed otherwise than by increased tariffs. (paras. 18-21)
4. We recommend that the Post Office should be allowed unrestricted access to its accumulated reserves, at least to the extent that they are represented by liquid assets. (paras. 22-24)
5. We further recommend that the Post Office be allowed, as required by statute, to pay its way "taking one year with another" and "to make appropriate allocations to reserve". The removal of surpluses by HMG and the carrying forward of shortfalls is intolerable. (paras. 22-24)
6. The Department should consider easing the real unit cost (RUC) objective until the increase in the level of economic activity, and hence the demand for postal services, is more firmly established. (paras. 27-29)
7. The evidence we received indicates that the present state of industrial relations in the Post Office is good. (paras. 30-35)
8. We are glad to note that productivity in the Post Office is improving but we look for further improvement. (para. 36)
9. We welcome the efforts of the Post Office to keep tariff increases to a minimum. We recommend that the differential between first and second class mail be constantly reviewed so as to improve performance and contain increases in tariffs. (para. 42)
10. In view of the importance of agency services to the health of the Post Office business we hope that there will be a satisfactory outcome to the negotiations on the level of commission. (paras. 45-46)
11. We recommend that the Government should give some substance to the commitment to provide new sources of income for sub-post offices by permitting all sub-postmasters who are prepared to issue motor vehicle licences, to do so. (para. 50)
12. We recognise the importance of sub-post offices to the success of the Post Office business. We would welcome any increase in the scope and volume of transactions which they undertake. We also hope that the security measures for their protection now being taken by the Post Office will be successful. (para. 51)
13. We recommend that the Secretary of State should conduct a detailed examination, preferably by the appointment of an independent firm of accountants, to see whether the present division of commission payments between the Post Office and sub-post offices is just and appropriate on commercial grounds and whether or not it unreasonably impedes the development by sub-post offices of new forms of business. (para. 52)

14. We were pleased to learn of the continued expansion of the activities of the National Girobank. (para. 53)
15. Although experience of the derogations from the postal monopoly allowed in 1981 has been short we were re-assured by the evidence we received of the initial effects. (paras. 54-56)
16. We recommend that HMG should continue to support the independent air couriers in their endeavours to secure equitable treatment in other Community countries. (para. 56)
17. Where the Post Office disposes of existing buildings it should be allowed to retain for its own use the proceeds of the sale. (para. 60)
18. We recommend that HMG review the constitution of PO UNC with a view to making it a more potent and effective body. (para. 64)

28 April 1982

**EXTRACTS FROM PROCEEDINGS OF THE COMMITTEE RELATING
TO THE REPORT**

Wednesday 3 March 1982

Members present:

Sir Donald Kaberry in the Chair

Mr Eric Cockeram	Mr James Hill
Mr Stan Crowther	Mr Thomas McNally
Sir Peter Emery	Mr Robin Maxwell-Hyslop
Mr Derek Foster	Mr Martin Stevens

The Committee deliberated.

Sir Peter Emery declared an interest in relation to the Committee's inquiry into the Post Office and expressed his intention of taking no further part in the inquiry.

Wednesday 28 April 1982

Members present:

Sir Donald Kaberry in the Chair

Mr Eric Cockeram	Mr Robin Maxwell-Hyslop
Mr Russell Kerr	Mr Martin Stevens

The Committee deliberated.

Draft Report (The Post Office), proposed by the Chairman, brought up and read.

Ordered, That the Report be read a second time paragraph by paragraph.

Paragraphs 1 to 64 read and agreed to.

Conclusions and Recommendations read and agreed to.

Resolved, That the Report be the Fifth Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Several papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the provisions of Standing Order No. 85 (Select Committees (reports)) be applied to the Report.

Industry and Trade Committee inquiry into the Post Office
Minutes of Evidence Wednesday 3rd March 1982

HC 241-i/HC 343
ISBN 0 10 290182 1

CORRECTION

Question 30, page 15, column 2, line 5 leave out "by" and insert "into"

LONDON: HER MAJESTY'S STATIONERY OFFICE
May 1982

WEDNESDAY 3 MARCH 1982

Members present:

Sir Donald Kaberry, in the Chair

Mr Thomas McNally

Mr Robin Maxwell-Hyslop

Mr Martin Stevens

Mr Eric Cockeram
Mr Stan Crowther
Mr Derek Foster
Mr James Hill

Memorandum by the Post Office (PO2)

This paper, as requested, sets out the Post Office's view of its current financial position and future prospects with details of current trends in the various different parts of the business. It begins, however, with a brief note on the new status of the Post Office since its reorganisation in 1981 and the passing of the British Telecommunications Act.

1 REORGANISATION

1.1 The separation of British Telecom (BT) from the Post Office took effect on 1st October 1981. In the months following the Secretary of State's announcement in September 1979 of his intention to make the separation, and during the passage of the enabling legislation—the British Telecommunications Act 1981—preparations were made to sever the remaining organisational links. This was a major undertaking but facilitated by the extent to which below main Board level, the businesses operated as separate entities. Nevertheless a number of major changes had to be made, including:

- the disbanding of the central headquarters of some 1200 staff including the separating of formerly common functions, such as legal services, public relations, catering, health and welfare
- the establishments of new Boards for the two businesses and assimilation of the former common functions into the independent businesses
- division of common assets
- new arrangements for the conduct of industrial relations and the negotiation of separate arrangements for staff matters previously handled by BT for the postal business and Girobank
- the establishment of a separate supplies organisation for the Post Office (previously telecommunications had dealt with all supplies matters in the old Post Office)
- preparation for split of the Post Office Pension Scheme.

1.2 All these tasks were completed to time and the new Post Office has taken over smoothly from the old. Only a few major matters remain outstanding and all these are close to resolution:

- the working out of detailed arrangements for the joint management of the investment funds of the Post Office and British Telecom Staff Superannuation Schemes when these are finally separated
- the taking over of responsibility for the recruitment, training, development and promotion of engineering and supplies staff in the Post Office (previously handled by telecommunications)
- the completion of the transfer of the Post Office supplies work (some still being done on an agency basis by BT).

2 FINANCIAL TARGETS

2.1 The Post Office operates to a number of financial targets agreed, from time to time by Government. For profit these are currently:

- Post* a 2 per cent per annum profit on turnover, after charging interest and historic and supplementary depreciation, for the three year period 1980-81 to 1982-83.
- Girobank* a two-tier target for the three year period 1979-80 to 1981-82 as follows:
 - a. average annual return before National Loan Fund interest of 13 per cent on net assets (i.e. average capital employed) plus
 - b. an additional sum of £5 million over the three year period.

The cost of printing and publishing these Minutes of Evidence is estimated by Her Majesty's Stationery Office at £3,168.

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[Continued]

Targets for 1982-83 onwards are currently under discussion with Government.

2.2 The External Financing Limits (EFL) targets are:

—Posts The 1981-82 target was to limit the use of surplus funds to £10.5 million. This compares with the Business's original wish to use £48 million. In accordance with normal Government policy, the shortfall on the EFL in 1980-81 will however have to be made good in 1981-82. The 1982-83 target is a negative EFL of £25 million i.e. the Post Office, after paying interest on loans, will provide a further £25 million for Government funding. This implies capital expenditure of around £100 million less than the business estimated it required in that year. The Government has envisaged continuing a negative EFL at the rate of £25 million for the whole of the three year period 1982-83 to 1984-85.

Girobank In recent years Girobank's external financing has consisted entirely of leasing finance to support the acquisition of certain assets. Leasing rather than buying outright preserves the free capital (gearing) ratio. For 1981-82 the allocation was £3 million net of leasing credit. During the course of the year this was increased by £7 million to reflect a further injection of capital (Public Dividend Capital and National Loans Fund) to enable it to maintain its gearing (free capital) ratio after payment of the special tax on banking deposits of £7.3 million. An EFL of zero has been determined for 1982-83 and this is envisaged to continue through to 1984-85.

2.3 Finally, Posts also operates to a Real Unit Cost (RUC) objective set in Cmd 7292, that taking 1977-78 as the base year, the real unit cost and level of its prices (compared with the general level of prices in the economy) of handling its business should not increase over the period 1978-79 to 1982-83. In terms of these targets there could be an excess of about 3 per cent taking the quinquennium as a whole but with uncertainties about the course of prices generally and the industrial situation it is difficult to be precise on costs. To the extent an excess occurs it will mainly reflect a catching up on wages after the ending of centrally operated national wage policies during which postal rates fell behind general levels and in an industry where wages account for about 75 per cent of total costs this is a crucially important factor. Discussions with Government about a new target are proceeding on the basis that costs will rise less than prices generally.

3 FORECAST PERFORMANCE AGAINST TARGETS 1981-82

3.1 Profit Performance

	Posts £m	Girobank £m
Actual Operating Profit 1980-81	23.3	7.2
Profit from disposals	5.9	
	<hr/>	
	29.2	
Posts Target 1981-82	49.0	
Posts Forecast performance 1981-82	—(?)	
Girobank Target 1979-80 to 1981-82	18.3	
Girobank Forecast performance 1979-80 to 1981-82	28.8 ³	
Girobank Forecast performance 1981-82	10.4	

Notes

- 1 Before NLF interest
- 2 Posts expects to exceed the profit target of £49 million but at this stage until the effects of the rail strike are clearer a precise forecast is not available.
- 3 Before special tax on banking deposits, £7.3 million, 1980-81, and expected Corporation Tax liability, £1 million, 1981-82.

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[Continued]

3.2 EFL Performance

	<i>Posts</i>	<i>Girobank</i>
Target 1981-82	(10.5)	(12.0)
Forecast performance	11	(10.3)

Note

Includes £7.0 million increase for capital injection following Special Tax.

3.3 Posts satisfactory profit prospects for 1981/82 reflect:

- holding inland traffic to a level only marginally lower than last year's, despite the severe recession, as a result of improved quality of service, holding prices for a year and holding the price increase in February to below the rate of inflation
- further improvements of mails productivity around 3 per cent after discounting the effect of the rail strike
- progress in achieving economies.

3.4 The profitability of Girobank, representing a 13 per cent return on net assets, reflects a policy of handling a high rate of growth without staff increases and current interest rates.

4 POSTAL PRICE INCREASES

4.1 Posts increased mails prices 9.3 per cent overall — 1½p/1p on basic letter rates, — from 1 February 1982, marginally over a year after the previous increases on 26 January 1981. The decision to increase prices was based on information about business performance available in the summer and early autumn of 1981. The reason for planning so far in advance was lead time involved in discussions with Government and POUNC (and arrangements for stamp printing).

4.2 Subsequent achievement of a high level of volume and economies beyond earlier expectation now mean that the Business expects to exceed its profit target in 1981-82, but the yield from the price increase remains essential to continuing profitability in 1982-83. The high level of profitability means that Posts will be able to make good the shortfall in its financial performance in 1980-81.

5 PROSPECTS FOR 1982-83

5.1 Posts budgets are being framed for 1982-83 to enable the business to meet its three financial targets (para 2 above) as follows:

- a 2 per cent return on turnover, without a tariff increase before 1st February 1983
- a £25 million negative external financing limit
- a 2 per cent reduction in real unit costs which is expected to be in line with the Government target yet to be announced.

5.2 Girobank's profit target for the next year has not yet been determined. However, Girobank will have to:

- operate within a zero EFL
- maintain an acceptable level of free capital (this level increases proportionately to customer balances)
- operate in an increasingly competitive market

Budgetary emphasis will be placed on improvements in internal efficiency and a continued growth in main business sectors.

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[Continued]

6 INVESTMENT PLANS

6.1 Posts needs to invest about £700 million over the next five years to:

	£m
complete mechanisation of major sorting offices	140
replace inadequate and outdated large sorting offices	100
adapt or replace other buildings	170
purchase new vehicles	120
improve or rebuild and equip main post offices	60
introduce new technology to improve efficiency and provide new services	70
replace and add to other plant	40
	<hr/> £700m

6.2 Present Government external financing policy expects Posts to find all its fixed asset acquisition from those funds currently generated internally, i.e. from profit and depreciation; and in addition to generate a surplus. Through past profitable trading and sound financing Posts has accumulated substantial funds currently invested within the public sector. In order to finance the heavy investment programme, the business needs to call on these surpluses to supplement its current internal sources of funding, but the EFL arrangements do not allow full freedom to do this.

6.3 If such restrictions continue the planned capital programme will need to be cut by the order of 30 to 40 per cent, which could lead to:

- a reduction in service and efficiency through the postponement of the completion of the letter mechanisation programme
- a deterioration in already poor accommodation
- deferral of schemes such as the introduction of automation at Post Office counters.

Investment Plans are being reviewed against the prospect of capital shortages but consideration will need to be given to a higher level of profit and to whether posts should continue with a negative External Financing Limit.

7 CURRENT BUSINESS TRENDS

7.1 *Posts*—In 1980-81, Posts' income of £2,125 million came from the following sources:

Service	Income (£m)	Proportion of total (%)
Inland Letters (including related services)	1,233	58.0
Inland Parcels	211	10.0
Overseas mails services	222	10.4
Agency services	459	21.6
Total	2,125	100.0

Although the inland letter service accounts for over half the total income earned by the business, each service is important in the contribution which it makes to overall business profitability. In 1980-81 all services except inland parcels were in profit. (In the current year parcels have returned to profitability.)

7.2 *Inland Letters*—at 9424m items in 1980-81, the business succeeded in holding volume at the same level as in the previous year despite the effects of recession, and the indications are that this position will be maintained in the current year. The target for the next quinquennium is to increase letter volume by 1 per cent per year. That this is a realistic objective is supported by success in maintaining volume during the recession, encouraged by vigorous marketing effort, of some sectors of the market, principally:

- financial mail (bills, payments, statements etc.)
- Direct Mail (an increasingly important advertising medium)

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[Continued]

Although correspondence posted by businesses, which accounts for 75 per cent of total letter mail, is inevitably at risk from technological, economic and environmental change, the evidence of the last few years suggests that this challenge may take longer to materialise than often supposed.

7.3 Inland Parcels—the effect of the recession in 1980–81 meant that volume declined by nearly 5 per cent over the previous year and the service recorded a loss of £6 million. Even so, the Post Office held its market share and in the current year volume seems set to recover the ground lost last year and to show a modest gain. The main factors behind the recovery have been:

- the increased flexibility in the services offered
- ability to maintain services in extremely bad weather conditions and during interruption to transport services
- a greater share of contract business
- the capture of some traffic from British Rail following its departure from part of its parcels business in the Summer of 1981

The target for the next quinquennium is to increase volume as parcel traffic generally grows.

7.4 Overseas—Overseas mails services made a profit of £1.2 million on an income of £222 million for the financial year 1980–81. For 1981–82 a loss of £2.4 million is forecast on an income of £250 million. In 1980–81 there was a reduction of 8 per cent in weight terms in the total overseas traffic and a further reduction of 11 per cent was recorded in the first six months of 1981–82. Whilst in part this fall in traffic reflects the general economic situation and the loss of ground of the British printing industry the extent is such that a major marketing drive, including extensive cuts in most air parcel prices, has been instituted to reverse the trend. The initial results of these marketing initiatives are encouraging.

7.5 Agency Services—Income from counter services provided by Posts was £381 million in 1980–81 and is estimated at £439 million for 1981–82. Considerable emphasis is being placed on improving and expanding counter services by:

- use of powers under the BT Act 1981 to provide counter services on behalf of nationalised industries and public authorities
- liaising with Government Departments and Agencies, e.g. the Royal Mint, with a view to taking on new or expanding existing business
- expanding the range of Posts own products and services at its counters, e.g. packaging material.

Existing and new services are being strongly promoted by a full marketing package from research to advertising and point of sale literature.

7.6 Girobank—In common with other retail banking organisations, National Girobank is achieving business growth in a highly competitive market. The underlying cause is active marketing, a widening of the range of services offered, the general increase in bank account holding and the slow but perceptible trend towards non-cash methods of payment.

Personal Accounts—the growth trend has been:

	Average pa Last 3 years	Forecast 1981–82
Number of current accounts	19	15
Number of deposit accounts	65	24
Value of personal loans—advances		
at current prices	21	22
at 1981–82 prices	6	9

[3 March 1982]

[Continued]

Corporate Business

	<i>Average pa Last 4 years</i>	<i>Growth % Forecast 1981-82 %</i>
Value of Business Deposits at current prices	24	9
At 1981-82 prices	10	-2
Number of rent payments	9	2
Number of payments transactions	11	8

8 COMPETITION WITH THE PRIVATE SECTOR

8.1 There is a widespread view that the Post Office faces no competition because of the monopoly. However, the monopoly applies:

- only to the basic letter service; parcels and premium services operate in a directly competitive market
- is qualified because the Post Office has no monopoly of communications.

Competition takes a number of forms:

- use of alternative communications media, telex, telephone, TV/newspaper advertising, bank transfer, micro computers, on-line systems
- from activities allowed under exceptions to the letter monopoly, including delivery of:
 - a) own mail
 - b) unaddressed advertising material
 - c) Christmas cards by charities
 - d) 'express mail'

Post's response to this competition has been to engage in extensive product development in each of its main areas of activity as set out below.

8.2 For inland letters, the development programme is based on:

- the analysis of the constituent segments of the letter market
- concentration on those offering the best prospects for growth, for example, Direct Mail advertising. Future strategy will be directed to more price and service packages tailored to growth segments including:
 - incentives for extra volume
 - introductory offers for new customers
 - cost sharing deals

8.3 Inland Parcels development has concentrated on:

- providing sophisticated and flexible price/service packages for contract customers
- encouraging the growth of the mail order and direct marketing industries

It will be enhanced by introducing more service facilities and devising specially tailored packages for individual market segments.

8.4 Premium Services have been developed in such a way as to offer the customer a full range of facilities for the transmission, conveyance and delivery of urgent documents and merchandise in the UK and abroad.

Further expansion will concentrate on:

- the extension of inland and international 'on-demand' facilities
- continuing development of an integrated computer based system for same day and overnight delivery.

8.5 *Overseas Services*—a number of marketing initiatives are under way designed to increase postings and to give British exporters a more efficient means of conducting overseas trade. They include an expansion of facilities for handling postings of printed papers (primarily books and periodicals) and air parcels.

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8.6 New Services—major development in the current year has been:

- the development of retail datapost
- the introduction of a computer controlled express service in the West Midlands
- the launch of Electronic Post, a computer based service for the transmission by electronic means of bulk letter mailings to a distant centre where they are printed and enveloped for delivery through the mail and the first system of its kind to harness the benefits of laser printing technology giving greater speed and flexibility. The initial two station link is between London's Mount Pleasant sorting office and Manchester Head Post Office.

9 QUALITY OF SERVICE

9.1 Letters—There has been a substantial improvement in letter Quality of Service during the past two years. Significant progress was made in 1980-81, and from April to November 1981 service achievement has been running consistently higher than the previous year and just short of target at 88.8 per cent for first class by Day B and 93.8 per cent for second class by Day D. The extremely severe weather during early January and ASLEF industrial action have however had a marked effect but a full range of postal services has been maintained through the establishment of an alternative road and air network. Service held up well during the difficult summer months in both 1980 and 1981 and performance during the Christmas period in both years was good.

9.2 The main factors leading to improvement have been:

- more stable staffing and a better industrial relations climate within the Post Office (although firm management action to improve efficiency has led to local difficulties in a number of places);
- major management initiatives to improve the technicalities of mail handling, covering inspection programmes, internal communications campaigns, training and customer education;
- better performance by transport contractors and additional air and road services;
- better industrial relations climate externally until the ASLEF dispute;

Vigorous efforts are continuing to raise performance still further and bridge the remaining gap between achievement and target.

9.3 Considerable progress has also been made in informing customers about both scheduled service and actual achievement. Leaflets giving the latest times of posting for various destinations throughout the country, and also service maps, are now widely available. Quarterly leaflets giving a wide range of Quality of Service results have been published since the beginning of 1980.

9.4 Parcels—for similar reasons, parcel Quality of Service has shown a significant improvement during the past two years. The aim is to further enhance quality of service by:

- mechanising certain existing parcel concentration centres;
- increasing the flexibility of some centres to accommodate traffic fluctuations;
- computerising operational records in order to afford more effective control and using such records to review and modify operations as necessary to provide optimum benefit from resources.

10 PRODUCTIVITY

10.1 Improvements in productivity have been made over the last two years aided by:

- the widespread introduction of local incentive schemes
- a generally firm management approach.

10.2 National Mails productivity:

- increased by 1 per cent in 1980-81
- is expected to increase by about 3 per cent in 1981-82 (after discounting the effects of the rail strike) in spite of a small reduction in total traffic. The improvement has been reflected in a reduction in the number of manhours used on mails work of about 17 million hours (5 per cent) over the two years).

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[Continued]

10.3 Improvement in productivity performance in the London area, historically low, has been even more marked. Following the Monopolies and Mergers Commission Report a target improvement for London of 15 per cent over 3 years was agreed with Government. After nearly 2 years, the target is well on the way to being achieved with an improvement in productivity of over 10 per cent.

10.4 In the major non-mails staff cost areas, a saving of about one million staff hours (a little over 1 per cent) is expected in 1981-82, even though there was, for instance, an increase in counter business due to the Civil Service dispute.

11 TECHNOLOGY

Considerable emphasis is placed on the development of new technology to:

- improve the handling of present business
- generate entirely new business

Research and development has for example produced significant improvements in the mechanisation of letter mail handling, and has also contributed to Health and Safety aspects of existing and new equipment.

Current major activities include development of:

- high speed parcel sorting machines
- packet sorting machines to handle letter post items not suitable because of their size for handling on the present range of sorting machines
- microprocessor control and management information systems
- mechanical handling equipment for automatic filling, lifting and emptying of containers.

In addition, the whole area of electronic mail (see para 8.6) has involved Posts in careful assessment of this new technological field, to ensure that the equipment purchased is best able to meet the international and national demands of what could be a major area for the future.

12 RELATIONS WITH THE PUBLIC

Every working day the Post Office collects over 30 million letters and over half a million parcels from 100,000 posting boxes and post offices and delivers them to more than 21 million addresses. In parallel, 5 million customers visit the country's 22,000 Post Offices every working day to transact a very wide range of business.

12.1 Much effort has been put into developing a strong relationship with customers and supplementing day to day contacts by:

- 'open days' to which customers are invited by local managers to see behind the scenes
- sales representatives (about 200) whose job it is to establish customer needs for communication and goods distribution and advise on postal and counter services
- extensive market research, to establish customer reaction and needs
- contact with nearly 50 customer and supplier trade associations
- liaison locally with Post Office Advisory Committees and nationally with the Post Office Users' National Council.

12.2 In addition to give customers a better understanding of how the Post Office operates what services it offers, and how they can help themselves in their dealings with the Post Office, the business also provides the following:

- Code of Practice for the Postal Service*: Published in 1979, it sets out the standards of service the Post Office aims to achieve, the levels of compensation available to customers, and the methods of dealing with disputes and complaints if things go wrong.
- Customer Service Units and Enquiry Points*: 64 Customer Service Units have so far been set up in Head Post Offices in the UK. These units provide a personal telephone enquiry service for customers from a central point in their local HPO. In addition to these special units, the majority of crown post offices have a varying range of facilities for customers wishing to make enquiries.

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—*Publicity Material:* In addition to the Post Office Guide, which contains comprehensive information on the full range of inland and overseas postal services, the Post Office also publishes an extensive range of explanatory leaflets giving information on the services available, including prices, and advising customers how to make the best use of the postal services.

13 MONITORING ARRANGEMENTS

13.1 Monitoring by Government of the Business's financial position and prospects is undertaken as follows:

- direct discussion at Chairman/Minister level of major policy issues
- day to day contact with the sponsoring Ministry at official level
- the regular cycle of the Businesses long-term plans (5 year and 10 year);
- investment and financing reviews for Treasury (5 year);
- monthly and more detailed quarterly financial returns by the Businesses to DI/Treasury, and regular meetings to discuss them.

In addition, there is:

- POUNC, the statutory consumer body, among the most effective in the public sector
- the recently announced machinery through the Monopolies and Mergers Commission (who have already completed a report on the Inner London Letter Post)
- the requirement to give evidence to Parliamentary committees from time to time
- letters from Members of Parliament and Parliamentary questions
- a close watch kept on Post Office activities by the media

All these activities require a considerable degree of top level time to be devoted to them, sometimes to the detriment of time and energy needed for improvement of the industry.

13.2 As a public body, accountable through Parliament to its shareholders, the Post Office expects to be monitored. It is concerned to avoid, however, monitoring by a wide range of different bodies covering the same ground.

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[Continued]

Examination of witnesses

MR R E DEARING, CB, Chairman, MR S. WAINWRIGHT, Deputy Chairman and Managing Director, Girobank, MR C E BEAUCHAMP, CBE, Board Member for Finance and Managing Director, Postal Services and MR R A CLINTON, Board Member for Mails Network and Development, The Post Office, called in and examined.

Chairman

1. May I welcome the Chairman and other officers of the Post Office to our public sitting of this Industry and Trade Select Committee this morning. Mr Dearing, we welcome you here with your colleagues. Over the recent months this committee has conducted a number of inquiries into public bodies associated with the Department of Industry. The Post Office seems to us particularly interesting just a few months after its formal separation from British Telecom. We hope to concentrate in this short inquiry on the current position of the Post Office as now constituted and on its future prospects. We all realise we have an interest in seeing the Post Office successful and, I hope I can underline, very efficient and that our mail is carried quickly, safely and more on time. You kindly supplied us with a memorandum and we have also before us your report and accounts for the year ended 1981. On page 49 of that report and accounts document it shows that nine-tenths of the assets of the former corporation went to Telecom. I suppose it is in the nature of the value of the equipment something of that order would happen. It shows us on page 49 that breakdown between telecommunications and Posts. Telecommunications are something like £16,700 millions and the new Posts got £1,400 millions. What was the split so far as the numbers employed?

(*Mr Dearing.*) We, out of a total employment of 444,000 have 180,000 plus, of course, people who are not our employees but our agents, the sub-post masters, who number approximately 21,000.

2. In your memorandum which we have labelled PO2 in the first paragraph you set out the changes made on the reorganisation and you also set out those yet to be completed. Would you care to comment on the outstanding matters? For example, when do you expect to complete the new arrangements which you cover, things like pension funds and so on?

(*Mr Dearing.*) Certainly, Chairman; on the pension fund, we have reached an understanding of the main principles and

these are that each corporation should have its own trust deed for its own pension fund and its own trustees and its own fund but that the trustees for the Post Office and British Telecom should have a joint investment committee which would be constituted as a company and that the activities of that joint operation should be controlled by a board whose members would be derived from the trustees of the postal side and from the trustees of the telecommunication side, plus some independent members. They would oversee the investment activities of the specialist full time employees who actually make the investments but my colleague, Mr Beauchamp, could amplify that in any way you wished.

3. Have you anything additional to say? (*Mr Beauchamp.*) That is correct; we shall work on the basis of the two separate schemes so that each industry can control its own pension affairs but when it comes to investments, these will be operated by a joint company which will reflect the interests of both.

Mr Cockeram

4. Are you guaranteeing index linked pensions to both sides?

(*Mr Dearing.*) It is a commitment which we have honoured since the corporation was split from the Civil Service, to continue to provide index linked pensions for employees.

5. What would happen if you do not earn sufficient profits to honour that promise?

(*Mr Dearing.*) So far we have earned sufficient profits to honour that promise and it is our statutory duty to continue to do so. I accept that it is a charge on the Corporation and if the Corporation was unable to operate profitably, it would need to borrow from the Government in subsequent periods sufficient to make good in its profits. It is an obligation on the Corporation to make sufficient to meet those charges.

6. So the taxpayer stands behind that guarantee?

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[Mr Cockeram Cont.]

(*Mr Dearing.*) Not in law; it is a choice in my view that the Government of the day has. In practice it has been the policy of succeeding governments to stand behind public corporations, but I stand open to correction. I believe that is not a requirement in law.

Chairman

7. Are the premiums paid by the employees, their contributions to the Pension Fund, reflected in the index linking?

(Mr Dearing.) Yes.

8. In other words, if there was no index linking, would they be paying a smaller contribution each month?

(*Mr Dearing.*) That would be a matter for negotiation with the trade unions.

9. Would it not be a matter for negotiations with those who assess whatever the premiums may be?

(*Mr Dearing.*) Yes. If I could just explain; the employees pay 6 per cent of their wages. As wages rise, so their contributions rise and it is in the agreements and in the trust deed I believe that the contributions from the workers should be 6 per cent.

10. Does that 6 per cent include the contribution for the index linking?

(*Mr Beauchamp.*) Yes. If I can help, there is a valuation taken generally after every three years when the actuary looks at the financial viability of the fund. That fund, of course, is based on assumptions which the actuary makes about life expectancy and other actuarial factors and take account of index linking. Having done that, he then assesses the contribution required to meet the liabilities. At the moment the contributions are 6 per cent from the employee, in addition to which the Post Office itself pays 12 per cent, and then there is an additional deficiency on the fund which has been amortized over a period up to 1992 equivalent to 3.5 per cent. That means the employee is paying 6 and the Post Office 15.5 per cent.

Mr Cockeram

11. With respect, the 3.5 per cent is to make good deficiencies in the past.

(Mr Dearing.) Yes.

12. Would I not be right in correcting that answer, and put me right if I am wrong, in saying that you are not paying 21.5 per cent, the sum total of those, into secure

index linking for the present benefits because 3.5 per cent of that is to make good a deficiency in the past?

(*Mr Dearing.*) Yes, but to the extent that the normal contribution of the employee of 6 per cent and the normal contribution of the employer of 12 per cent are assessed on the basis of index linking, then in that way the contributions are meeting the requirements of index linking. I think, if I may say you make the valid point that the Corporation is responsible for making good any deficiencies that arise in the fund.

Chairman

13. Mr Dearing, from your earlier experience in the Department and from what has happened in the past few months, can you tell us what operating and managerial advantages have been found in the split which has actually taken place between the Posts and telecommunications?

(*Mr Dearing.*) Yes. I start from the view that the needs of the two corporations are very different and I think you illustrated the point in your opening remarks about the split of assets, the huge predominance to telecommunications and a smaller one to Posts, whereas the balance of labour was much more nearly equal. In short, British Telecom is a highly capital intensive business in an area of rapidly expanding technology where it might be argued the distinctive skills required relate to those circumstances. Posts is by contrast a highly labour intensive business in which 75 per cent or more of its costs are labour, where the skills required in a market that is not expanding are in marketing particularly, and in the management of a labour force which accounts for so much of its costs. So the skills required within the Board for the successful management of the two corporations are different, and our Board structure reflects the needs of our own business. Second, one of the problems of the old corporation was its sheer size. It was said to be perhaps the biggest business in Europe and a business comes to a size where, unless there is a real synergy between the two sides, it makes good sense to break it down into more manageable units. So I think we have the advantage of still having a very large business, but it is more manageable in scale than previously. The third advantage is a complete realisation that the future of the postal business lies entirely in its own hands and it cannot depend or aspire to any cross-subsidisation from Telecom. I have just returned from a visit to the Federal Repub-

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[Continued]

[Chairman Cont.]

lic of Germany where almost the whole of the telecommunications profits are used to cross-subsidise the postal service. That is a judgment by the German community that they think is right but I think it is much more healthy for the postal business to stand on its own feet and to know that its future depends on its own efforts because that need is more likely to be conducive to the increasing efficiency that we indicated we were looking for than any other. Fourth, negotiations with workers' representatives will be by Post Office people responsible for managing the postal business whereas under the old corporation some negotiations with some classes of staff were done on behalf of the Corporation by British Telecom because it had the preponderance of workers. I would say, therefore, that the negotiations took more account of the particular needs and circumstances of the Telecom business than the postal business. So those are the four general reasons why I see we are deriving advantage from this split which the Government has decided upon; that is advantages to Posts of being split.

14. For the reasons you have given or for any additional ones?

(*Mr Dearing.*) Those were the four reasons that I think are the main basic ones for the split. I could go on and give others; for example, the greater identification in the public mind of Posts as a business; our ability to promote it as a business in its own right, and in its own name, which is important to its future success; to have a management which sees its whole future in the business, rather than in a wider corporation, to be totally committed to it and a work force similarly. In short, there is closer identification with the enterprise.

15. We shall later come to some specific questions about letter writing and so on but do not British Telecom become great rivals of yours as suppliers? If they have their way, we need not write letters in the future. We can just talk into a machine and it will be transmitted somewhere else. There would be no need for a postman to bring me a letter every morning. I could get it on a machine in my house.

(*Mr Dearing.*) I am sure that is the aspiration of British Telecom and I think it may be there will be strong competition between the two groups and indeed it is already manifest but I think we shall disappoint any such aspirations. If one

looked at the United States, one could see a society where telecommunications technology is several years in advance of our own. In that society the postal service has continued to increase volume in each of the last ten years so that it shows one can point to an example of somebody facing stiffer competition from telecommunications than we are where it has been possible to expand and we think that it should be possible for us in the next five years, if there is some modest growth in the economy, to increase rather than see a diminution of the volume of the postal service. There are, of course, some parts of our business that are not in competition with telecommunications; for example, the parcels business which accounts for about ten per cent of our turnover. Then there are packets and our counter business but, yes, we are in competition; yes, they are formidable competitors, but I think we shall be able to hold our own and perhaps advance in the short term.

Mr McNally

16. On the question of the United States, the postal figures have always fascinated me. What lessons do you learn about this continued growth that is directly applicable to the British circumstances?

(*Mr Dearing.*) I think it illustrates a fundamental of the economics of a postal service; that it is a service which operates through a system with high fixed costs. That means that the business will prosper if volume increases because as volume increases, unit cost declines. As unit costs decline, real prices can fall or increase less than they otherwise would. That encourages further volume, so you get a self-reinforcing upwards spiral to the benefit of the customer in terms of lower prices, and to the benefit of the business in terms of increased volume. That is why in my earlier remarks I included marketing as one of the two very distinctive skills required by the Board of the postal authority. It is so important for us both to market and to increase volume and one of the satisfactory achievements of the last year is that in spite of this very severe recession, we shall do better on volume than we had dared hope. Our budgets provided for loss in volume of 1.6 per cent over the year. I think it is very likely that in spite of the handicaps of the railway strike and of extreme severe weather in December, which we expected to affect our Christmas mail, and in January, the fall in volume is unlikely to be more

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[Continued]

[Mr McNally *Cont.*]

than half a per cent. . . that is for all activities and letters will not be lower than that.

Chairman

17. May I turn our attention to your financial targets on paragraph 2 of your paper where you gave us the financial targets for 1982-83. Can you tell us whether you are confident you are going to achieve those targets?

(*Mr Dearing.*) For 1981-82, the current year, which ends in March, yes; for both National Girobank and for Posts we are confident that we will achieve our targets and we have every expectation of exceeding them by a worth-while margin.

18. Can you tell us what is the historic basis for the 2 per cent requirement on the profit on turnover? How far back does that go?

(*Mr Dearing.*) This is a three year target and we are now completing the second year. A new target will have to be negotiated for the year 1983-84. This target of 2 per cent was intended to reflect—and it is on turnover rather than capital because the capital base of Posts is relatively small and on the modified historic costs convention which was being used in those times—a compromise between running the postal service as a business and earning a business-like return, (and it approximated, I think, to about an 8 per cent return on capital on the modified historic costs convention) and the provision of a social service such as Posts provide in rural areas. It also had regard to the need of the postal business to finance a capital programme which involved the modernisation of the way we sort letters. It was designed to supplement depreciation with a source of money which would enable the postal business to be effectively self-financing.

Mr Crowther

19. May we have a few comments from you on the external financing limit, Mr Dearing? The Department of Industry in their memorandum tell us the Post Office confidently expect to remain within the EFL in 1981-82. That is correct, is it not? You confidently expect that, do you?

(*Mr Dearing.*) Yes.

20. There are one or two things, being a simple politician, which are not clear to me. There is a phrase used quite often 'negative EFL'. That, presumably, means you are

paying something back. Are you going to be able to pay back all the Government wants you to pay back, in fact?

(*Mr Dearing.*) This year, by exception, we do not have a negative EFL which means we pay the Government money but, in fact, in the year before this when we were due to pay, and I am talking about posts here, the Government some £20 million in addition to interest and finance our capital programme as well, we only provided £7 million. Girobank exceeded what was required of it and therefore there was a net underprovision of money by the new Corporation to the Government of £10.5 million. This year we shall have to make good that under-provision of last year. So in fact this year on the postal side we are expected neither to be a lender nor a borrower. I have no doubt of our ability to achieve that. Next year the Government is giving us, or has given us, a negative EFL on the postal side of £25 million and on the Girobank side a break-even EFL. This means that we have to pay interest on our capital and make a contribution of £25 million to the funding of other expenditure.

21. Do you expect to be able to achieve that in the next financial year?

(*Mr Dearing.*) I always work on the basis it is our duty to achieve any target the Government sets and that is our intention. One cannot, and I must say this, operate a business with a turnover of £2.4 billion to within £25 million. But as a Board we have a duty to take very seriously these targets and therefore in our planning of investment we have this year consciously held back on capital expenditure so that, having given insufficient money to Government last year, we could be sure this year of meeting the requirement in full. So it is a handicap to us to seek to operate very tightly. Now the Government has said that if a corporation falls a little short of its external financing limit target it will be allowed to do so provided it makes the money up the following year, which we are doing. Unfortunately, at the present any way, it is not a two-edged arrangement; that is, if one falls short one has to recover, but if one does better, one is not allowed to carry any benefits into the year to come. This is a little like running a business with a piggy bank and the business is not in self-contained annual lumps. It is a continuing entity. The margins we are talking about in turnover of £2.4 billion are tiny. No business can run within one or two per cent. You are doing

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[Mr Crowther *Cont.*]

very well if you can get it right within one or two per cent, so this is a handicap to us.

22. Have you made representations to the Government to remove this handicap?

(*Mr Dearing.*) Yes, Sir.

23. Apparently without success?

(*Mr Dearing.*) I always find the Government of any party listens with understanding, but perhaps not sufficient always. They have their own problems too but I do think it desirable that the Government shows some flexibility on this particular issue.

24. Is it fair to summarise by saying the Government is expecting you to operate on commercial lines but not allowing you to do so in the event of you having made a better surplus than anticipated?

(*Mr Dearing.*) Yes, I think the Government might say if I were in the private sector I would face the perils of bankruptcy and a banker who would not be as accommodating as it has been to public sector corporations in difficulties. There are swings and roundabouts but in my particular circumstances it has been to the disadvantage of the effectiveness of the business because we have held back on investment which was desirable.

25. I am coming to that point in a moment. May I ask another question first? In the event of Girobank performing better than Posts, or vice versa, can you offset one against the other in the matter of EFL?

(*Mr Dearing.*) Each business has its own distinct EFL. It is expected to achieve it independently without cross help. In fact, in the discussions with the Government about the short-fall last year, whilst Posts shortfall was some £13 million, Girobank overperformed by some £2 million. It is possible the Government would agree to put the two together making a short-fall of £10.5 million rather than £13 million. £2 million is £2 million but it is a very, very tiny sum.

26. Can we come now to the question of investment. Could you tell the Committee a little more about this? You were suggesting a moment ago that you feel you ought to have a much higher level of investment.

(*Mr Dearing.*) Yes. The crux of the issue is that the Post Office is committed, as are all post offices in advanced nations, to converting manual sorting of letters into machine sorting of letters. We intend to create 84 mechanised letter offices. We have

been criticised first by the Carter Committee, which was set up by the Labour Government, and then by the Monopolies and Mergers Commission inquiry which was set up by the present Government of slow progress in implementing this change to mechanised sorting. We are now a little over half-way down the path but we, as Mr Clinton's appointment reflects, operate a national postal system and the benefit from this new technology comes from having this new system available for all letters, because if the letter can only pass through the mechanical system on part of its journey, one only gets half or a quarter of the benefits. So it is as if we were half-way down a path when it was raining heavily and we are getting very wet. Our interest is to get to the end of the path as quickly as possible.

27. I would like to pursue the question of the actual amount of money we are talking about. If you had your way, how much more would you be investing in this kind of operation next financial year than you will, in fact, be able to invest?

(*Mr Dearing.*) Speaking from memory, and Mr Beauchamp will correct me if I misrecollect, we said to the Government that if authority could be given in sufficiently good time, we should need to invest some £230 million. The assessment we are currently making next year is that we will probably be able to invest perhaps £130 million. I accept that the £230 million was an extremely large sum compared with the history of investment in the Post Office. Last year we invested £76 million. This year it will be about £120 million. It was a steep change. We thought we should rise and increase the level and get to the end of the garden path, but there were constraints on the money the Government could make available.

Mr Stevens

28. Some of us felt that the introduction of more complicated post codes some years ago was not perhaps necessary and not, in fact, used by the sorters. How important are the longer post codes to the mechanical sorting process?

(*Mr Dearing.*) It would have been possible to choose, as some other countries have, a four digit post code at about half the length of our present one. The disadvantage of this is that it only enables the machinery to sort the letters to the terminal or big district to which the letter is going. With our

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[Continued]

[Mr Stevens Cont.]

post code we are sorting the letters down to groups of ten or twenty addresses. That means that we can use the machinery not only to see the letter on its way to the right town, but when it has got to the town, to put it through the machinery again and to sort it according to the individual postman's walk and to give it a rough order within the postman's walk itself. So in this way one gets the ultimate benefit of mechanisation. Now, the counter side of that is that the post code is more complicated and more difficult to get across. That is why we have been spending over a million pounds in the last year to promote the post code. At the moment about 49 per cent of mail is post-coded. Your second question was: does the postman use it? Well, the answer is, yes, he does, to the extent it is put on and to the extent we have the machinery installed. As I say, we have a little over half the offices equipped and, secondly, we have only just begun the work on a limited scale of using the post code to sort the mail in delivery towns. We have just started on that.

29. Generally speaking, there is a better chance of our letters arriving quicker if we use the post code. That is the genuine position for those places where the mechanical sorting is now introduced.

(*Mr Dearing.*) Yes, Sir. I do not want to exaggerate it because until we have got the whole system, the odds are that if you post a letter to a sorting town the receiving town may not have the machinery, but, yes.

30. We have been looking at paragraph 2.3 in your document where you talk about real unit cost measurements and, of course, your salary and wages level is 75 per cent of your overall costs. Can you tell us how you work out the real unit cost measurements? It has appeared to those of us who deal with your people on the ground that what they have been told to do is simply to spend 2 per cent less a year and that means that sometimes it appears there is a 2 per cent reduction in the level of service.

(*Mr Dearing.*) That would be failure if that were the case. First of all, what is real unit cost? I sometimes tell my colleagues in the Department that it is beyond human understanding but I will try to convey my understanding of it. The concept is simple enough. Our target is not to increase our prices and our costs more than those of other people, and on the prices side, it is very simple: do our prices increase more than the cost of living index or do they not?

Real unit costs are more elusive. I think it is calculated in this way: it is the income from the previous year increased or decreased by the change in volume this year from the end of last year, divided by the current year's expenditures, deflated by the rise in the retail price index. That gives a measure of real unit cost. During the current year I would not like to give an estimate because we are not at the end of the year yet. It depends on the level of volume. I would have expected the rise, if any, in revenue costs this year not to be more than a half a per cent as an indicator. But our prices which we increased 9.3 per cent were about 2 per cent below the rate of inflation. I tend myself in talking to our managers, because of the elusiveness of the real unit cost concept, and to trade unions, to talk about our prices, and the policy of the Corporation must be to see that it does not increase the prices more than once a year. When it does so, the price increase is no more than, and if possible less than, the cost of living. In this past year I did commit us to holding our price and we did keep that promise and the increase was below the RPI.

31. Nobody wants to fall off the tight-rope on the one hand of being so parsimonious with their staff that the quality of the work declines and if you look at things like London Transport over the last twenty years you see it was perhaps a mistake to try to run it on the cheap. That is now being put right by Sir Peter Masefield. What are the implications of this system that you have just described to us, RUC, the one on prices which you have mentioned, and how is an effort to reach the agreed level going to affect the staff?

(*Mr Dearing.*) In terms of quality of service, we have public commitments which are to deliver 96 per cent of our second-class mail on the third day after it has been posted. If it is posted on a Monday, it has to be there by the Thursday, and to get 90 per cent of our first-class there by the working day after posting. In the first nine months of this year, and my colleagues will correct me if I do not get the figure exactly right, we are 88 and a bit per cent for first-class mail, and 93.7 per cent for second-class mail. So, as you will see, we are a touch below these public targets.

Mr McNally

32. What is the size of your sample to give those statistics? Are you confident of its accuracy?

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(*Mr Dearing.*) Yes, we have consulted a Professor Stuart who has just conducted a review of our sampling methods and while he has pointed to technical refinements, he has endorsed the validity of the sampling system. It gives an accuracy of better than 1 per cent to 95 per cent confidence limits. So there is nothing wrong with our sampling. It is done in the sorting offices by a postman higher grade who is instructed from the centre, where he is guided by computer, on which post codes he must, without any choice, extract letters from to look at the date stamp in the delivery office on the morning the letter is to be delivered. I think over the course of a month we sample of the order of 100,000 letters to get our quality of service assessment.

33. Has your sampling indicated ways for further improvements or do you think that 90 per cent is about optimum as far as you can hope for.

(*Mr Dearing.*) I do not think the sampling has pointed to any ways of improving the actual service. The service could be improved but it is at a price, and one has to take a judgment of what the customer wants to pay for a particular service. You know, 70 per cent of our mail normally goes by rail. There are incidents from time to time on the railway network which affect the quality of service and we do not control them. We are dependent on air for about a tenth of the first-class traffic. There are fogs at airports and things like that. There is human error. We have our own ups and downs. The Post Office Users Council must speak for itself, but the Secretary of State has spoken for himself in a statement to Parliament recently saying that he thinks that the present target is a sensible one, and I am not conscious of any pressure for a much higher target, given that those who wish to pay for a simple service have the opportunity to do so either through the Post Office or through the private sector. If I may just explain, we provide what I will call super services at a price and under the recent legislation private sector companies are able to compete with us in the provision of those services. The basic criterion is whether the service costs a pound or more. We provide a whole range of services and the private sector too and so somebody who wants to be certain of next day delivery can get it for a price.

34. I think people who look back, like the Hovis advertisements, say that the Post

Office itself was once a super service. Is that nostalgia?

(*Mr Dearing.*) No; the Post Office has and will expand its super service.

35. I mean that buying the normal service at the Post Office was once a super service.

(*Mr Dearing.*) One always tends to look back on Hovis bread or any other in the past. One has to look at other administrations and what they are doing. I am not speaking in absolute terms but I cannot immediately recall another postal service in advanced nations that provides in the main urban areas as we do two deliveries a day and the first delivery completed by 9.30, and also the six day a week service through the letter box. Again, Germany happens to be fresh in my mind from visiting it yesterday and it is one of the major and most effective postal authorities in the world. In its case one-third of the mail is collected by the recipient, one-third goes into boxes at the garden gate and only one-third is delivered through the letter box. There is one delivery a day. The British postal service operates at a profit. The German postal service operates at a huge loss. It does provide a very good service but at a cost.

36. Leaving aside the super services, what are the trends and proportions between first and second class mail now?

(*Mr Dearing.*) The current proportion of first class mail has been in the area of 43 to 44 per cent with the second class mail being the balance. It has varied over the years. I would say the optimum was of the order of 46. The variation over the years has reflected two factors, one the relative prices between first and second class mail and the price differential has ranged between 17 and 31 per cent over the last decade.

37. Do you think the price differential is right now?

(*Mr Dearing.*) I would certainly say it is not too high. There was continuing representation from the Post Office Users National Council, and also, if I remember correctly, from the Monopolies and Mergers Commission, that the differential should be widened and that in each of the last two price increases we have rounded up by one halfpenny. It is now I think 24 per cent. So we are roughly midway in the range that it has been over the last decade, between 17 and 31 per cent. I

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mentioned that the optimum for first class working was in the mid-forties and I do not think the differential is too wide.

38. Is there any element of cross-subsidy in the two services?

(*Mr Dearing.*) There is such an integrated service that it is very difficult to allocate costs. The Carter Committee estimated in 1977 that the difference in cost between providing first and second class service was only half a penny. Allowing for inflation, that might be 1 penny more. The benefit to the customer of a difference between delivery next day and delivery on the third working day after posting is very great. Some people like to argue in terms of value that the differential should be more than 3 pence. So there is a cost end and there is a market end. What we try to do is to optimise, taking into account the customer interest, the representations of The Post Office Users Council and the cost aspects and we are very sensitive to looking at the balance as expressed by individual customer preferences in the two volumes of the mail, and maintaining the quality of service because if we get the balance wrong, the quality of service tends to suffer.

Mr Maxwell-Hyslop

39. Before we leave this point, to what extent, because I notice it is often disputed in official statements put out by the Post Office, is second class mail deliberately delayed in order to promote first class mail? I remember in a court case one of the witnesses described himself as a delay and said that his function was to delay the second class mail. You probably remember that too. To what extent is second class mail delayed because if it achieved anything like the same performance as first class mail there would be an obvious lack of incentive to people to pay the premium.

(*Mr Dearing.*) I will ask Mr Clinton to tell you what actually happens.

(*Mr Clinton.*) The whole point of the second class service was, in fact, that we could take the opportunity because the customer had chosen to pay the low rate to sort that second class mail at a time when it costs us less to sort it. That time is the following morning between 6 a.m. and noon when it is predominantly sorted and then despatched on its way being afternoon sorted or overnight sorted for delivery on the third day after posting, with some flexibility on the second and third days after posting respectively. That is really what this

is all about, except sometimes to meet the point that you are making, Mr Maxwell-Hyslop, we do sort it on the night of posting or in the middle of the night. That would depend entirely on the staffing arrangements at the office concerned. If we have to have sorters on duty in the middle of the night to meet mail, say, at two o'clock in the morning, then we would utilise the time available between their coming on duty and two or three in the morning to sort second class mail and despatch it, thereby in some cases early enough to get an earlier delivery. That is not the intention of the service. We do that when we are able to do so. It is not a deliberate delay; it is a designed service.

40. So the only delay that second class mail suffers that first class does not is that where there is an option which is cheaper, you take the cheaper option but except for that you deliver it as early as you can compatible with taking the cheaper of two or more options where there are options, that cost being the difference in the amount of the unit?

(*Mr Clinton.*) Yes, I would accept that, but it is not just a cost option. The factor which I did not put into my first statement was the quality of service issue. In taking the second class traffic out of the day of posting's sorting period, that is the night on which it is posted, we are enabling rather than improving the chances of first class mail to be delivered the next day. It is simply the sheer physical problem of handling the vast quantities of mail we would be faced with if it were all posted first class for despatch that night. The sorting period between 6 p.m. when the traffic starts to come into the sorting office and the despatching period between eight and ten is a very short one for the vast quantity of mail we are talking about, so it is a quality issue as well as a cost issue.

41. And where the postal letter is over the minimum weight, how is it recognised, from the stamps on it, whether that is intended to be and indeed meets the requirement of first class or second class? Is this done automatically mechanically or does it demand a human being making a judgment about that letter and into which sack to put it?

(*Mr Clinton.*) It would depend upon the individual sorting office. As Mr Dearing has already explained, they are not all mechanised. As far as possible a human judgment is

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made of the category of mail into which a particular item would fall, in accordance with the stamps on it.

(Chairman.) Might we return to Mr Stevens who really started this discussion about real unit costs?

Mr Stevens

42. We are talking about the real unit costs constraints on your staff which is the biggest part of what you have said. Are those constraints having an effect on recruitment? How many job vacancies have you got and what is the quality of the people whom you are now recruiting into the Post Office?

(*Mr Dearing.*) With the current economic situation there is really very little problem in recruiting staff. We have, therefore, not seen the real unit costs as impacting in any way on manning-up. We have seen it really as a legitimate interest of the community in seeing that the Post Office conducts its affairs efficiently, and our staffing policy, when the labour situation eased following the crisis we had in London in 1979, was to fill vacancies which contributed very materially to that disaster. So we increased our labour in the early part of 1980. This year we have reduced numbers slowly but we have sought to make our economies not by reducing numbers, but by reducing the excessive levels of overtime which were endemic in the postal business. Very high levels of overtime are often not efficient and are at a high cost because they attract the premium rates. Therefore, the main reduction in hours, and I count labour in terms of hours rather than bodies because it is an hour you pay for, has been in overtime.

43. You would say, for example, and you mentioned London, that you have as many people in your work-force for London as you need? Would you say, Mr Dearing, when the employment situation in this country improves, you will find it more difficult to meet the constraints which the Department is seeking to impose?

(*Mr Dearing.*) If the labour situation returned to what it was five years ago, yes. Not many forecasters are seeing that in the medium term because of the effect of technological advance on the substitution of machinery for labour. Also I hope, looking ahead, we shall be continually increasing our own efficiency because of the help from the machinery we are installing. There are changes in the basic way we do the labour operations which I would like to pursue but

which are matters of great difficulty, but which could help.

44. In your paper you say that there could be an excess of about 3 per cent in the five years on this real unit costs point. Why is that?

(*Mr Dearing.*) Well, partly one would say because the number of addresses has been increasing through time and that means the amount of time spent or walking around goes up without any corresponding increase in volume.

45. When you say there is an increase of addresses, does that mean that there are more houses being built or a larger proportion of the population regularly receives letters?

(*Mr Dearing.*) I was saying that there is an increasing number of individual addresses. It does not necessarily mean more houses are being built but more dwelling units, houses being divided. That is part of it. Another factor was that during periods of wage restraint perhaps a public corporation, particularly one benefiting from a monopoly, was less sensitive to market forces than a firm in the private sector thought inescapable and perhaps therefore our wage rates fell rather below those in the private sector. There was a period inevitably, and 1979 brought it out, when if you get behind the market you run into serious trouble. Therefore, there was some evening out of the imbalance which contributed to this. Can I come back to my layman's approach to this issue in terms of how do our prices compare with the RPI. If, for example, we could do better than what I recently said, and that enabled us to hold prices for more than a year from the February 1st price increase, i.e. if we could hold them to 1st April 1983, then I would have thought the rise in postal prices over the five years would be the same as the rise in the RPI. I am suggesting in a way that the measuring tool is not so refined that one can be sure that the figures are right over the five years.

46. I am sure nobody on this committee would want the pay levels to fall behind those of other comparable jobs. Finally on this issue, we know that the Department of Industry has confidence in your organisation. Can you return the compliment? Were you adequately consulted over the imposition of these constraints?

(*Mr Dearing.*) Those constraints were five years ago. If I can comment on the situation

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now, which I can speak for, what matters from the point of view of the nationalised industry is that the staff in the Government department should be in the job long enough to know the affairs of the industry and to ask the right questions and to pursue the right faults. One of the legitimate criticisms of the Civil Service, of which I was a member for very many years, was that the movement of staff was too rapid. I may say that in international affairs too on the postal side I have had other countries complain to me about the frequency with which British civil servants changed in their jobs in the Department of Industry because dealings depend a lot on personal confidence and that applies to all dealings. It so happens, and I am sure this reflects good management in the Department, there has been stability on the postal side of the Department, and there is a lot of knowledge of our affairs and we pursue a policy of being very open to their inquiries.

Chairman

47. Purely on that very point, I notice the Secretary of State gave an answer in the House the other day about consultation with you about future financial proposals. Have you really been fully consulted?

(*Mr Dearing.*) These are the financial targets for Girobank which should take effect on 1st April, and, secondly, the financial target for Posts which will not take effect for another year and a month. We have not started negotiations on the postal one yet. I have no doubt at all there will be long and detailed discussions. On the Girobank target we have been in negotiations with the Department of Industry and the Treasury for a very considerable number of weeks. They are detailed consultations and we have not yet reached an accommodation.

48. It has been proposed, has it not, that the RUC should fall by 5 per cent in the three years 1981-82 to 8.5 and particularly 2 per cent should fall in 1982-83. What would be the effect upon you of those revised arrangements?

(*Mr Dearing.*) In our budgetary discussions which the Board has been engaged in over the last month we have planned our affairs next year so that we shall achieve as best we can estimate a 2 per cent reduction in our costs. That has meant that we have had to look for further improvements in labour productivity, as we have been achieving this year, that we have had to

pare our costs down to a minimum, while recognising we need to invest for the future in capital equipment which leads to a short term increase in costs while it is not being productive, by introducing new management techniques and new financial systems to improve the flow of information, all of which are expensive. It also means, and this is not the place to conduct a wage negotiation, that we shall be saying, when the time comes, to our unions that we are constrained, as are other firms, to modest levels of wage settlement but I would rather not pursue that this morning.

49. Can you, in effect, absorb these new figures?

(*Mr Dearing.*) Yes. I have no disagreement with the Government whatever. The previous target was no increase, no change, in real unit costs over the five years, and the justification for that is that in a labour-intensive business like Posts, where the potential benefits for mechanisation are really very limited compared with the majority of industry and where the expectation of society is for a real increase in living standards, the best one could expect in such circumstances was for the business to hold its revenue costs. I think that was a very fair judgment but as you were indicating in one of your questions, Chairman, we face very severe and growing competition, not only from British Telecommunications, but from the private sector entrance into this market. The Chairman of British Telecommunications has announced his object is to reduce operating costs by 25 per cent over the next three years. Now, that is not the same thing as a 25 per cent reduction in total costs, because his is a capital intensive business, but my judgment is that we have a commercial need, never mind what the Government's need is, to reduce our real unit costs by the order of 5 per cent over the next three years in order to stay in business and maintain our volume.

(Chairman.) Let us go on from there to your performance generally.

Mr Cockeram

50. In the memorandum you submitted, paragraph 3.1, you omitted to record your anticipated performance in the current year, eleven months of which have passed, because of the rail strike situation. Now that that is over, can you clarify that point for us?

(*Mr Dearing.*) Yes; I said earlier that I accepted an obligation when we under-

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performed the target, to try to make good. That formally applied to the external financing limit but I am also very conscious that last year we fell short of our profit target. Our profit target was to achieve a profit of £43 million on the postal side and we achieved some £23 million. I fully expect this year we shall be able to make good that deficiency and meet our profit target of approximately £50 million.

51. That means a profit of £70 million?

(*Mr Dearing.*) Yes; I would hope for rather better than that.

52. Have you made any estimate of what the rail strike cost you?

(*Mr Dearing.*) Yes; in terms of operating costs, yes. In terms of the effect on revenue, volume, no.

53. That is hypothetical; the other is practical?

(*Mr Dearing.*) Yes, and I do not have the volume figures beyond the end of January but in terms of costs I must say that I hope you will not draw me too far on this because we are engaged in a commercial negotiation with British Rail about the recovery and, under the terms of our contract, the cost was in excess of £1 million but below £2 million. I put it that way so that the bargaining position of the two sides is preserved.

54. Speaking for myself, that is less than I expected you to say!

(*Mr Dearing.*) It shows how moderately we expend money in order to maintain the service. If I may say on behalf, not of myself, but of my colleagues, few people thought that when we lost the source of transport which was responsible for 70 per cent of movements, we would be able to maintain a full mail and parcel service. Although we could not maintain the same quality of service as normal, we did maintain a full service. After a pause to see whether we could do it, our big customers, resumed posting and the provisional figures I have for January suggest the loss of volume compared with previous years was not more than 1 per cent. That was a good achievement but I cannot say what was the effect on the February volume.

55. Summing up then, would it be right to say now that eleven months of your year have passed and that the railway strike has been digested that you expect to achieve your target plus the surplus to cover the

deficiency of last year and that you will therefore be back on target when you open your new year?

(*Mr Dearing.*) Yes.

(Chairman.) We have touched already on some part of the investment plan. Mr Foster has some detailed points to put to you about it.

Mr Foster

56. Mr Dearing, in paragraph 6 of your memorandum which we have labelled P02 you set out your investment plans which you express as, and I quote 'needs over the next five years'. Is this figure of £700 million all that you wish to spend or have you cut back to this figure and, if I can go on to ask a couple more questions on that, if there was no external financial limit, do you think you could borrow this money? Would it be profitable investment, that is to say, would it show a positive return after payment of interest?

(*Mr Dearing.*) To answer your three questions, this £700 million is more than we could finance on present expectations from internal funds and against the background of what the Government has said to us about borrowing. It is £200 million at least more than we could finance. So it is a little academic to discuss perhaps how much more we would like to invest, but, if I gave you an order of magnitude, say £100 million, it is something of a compromise between what is desirable and what is realistic, given the Government's other calls on expenditure. The second question was, could we raise it in the market? I believe that against the kind of profit figures I have been mentioning, there would be some confidence in the market. This comes back to a point Mr Cockeram was raising about Government guarantee. In fact, public corporations have been assumed to have a Government guarantee behind them and highly unprofitable public corporations have been able to borrow without difficulty in the market place. So, yes, we could, I think, borrow substantial sums, perhaps I am over-optimistic, on the strength of our asset base and on the strength of our ability to earn a profit. Your third question was, could we remunerate the capital investment? If we are talking of £200 million a year extra and interest rates of 14 per cent, so that is £28 million, and with depreciation let us call it £40 million. That is a very sizeable sum, but we would not be investing that kind of money unless we could get a reasonable return on it and in relation to

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our turnover of, let us say, £2.5 million it is under a couple of per cent. Yes, I would hope that we could remunerate that kind of investment.

57. In your answer there, would that affect any of the other financial targets which you have talked about this morning or any other performance targets?

(*Mr Dearing.*) To the extent we are under-invested, it does make it more difficult to achieve our performance targets.

58. Can I then go on to ask Mr Dearing if he agrees with the Department of Industry's view that future investment will be concentrated in what they call system-related areas which we take to mean accommodation and vehicles rather than on technological developments? How much of the £700 million which you would like to spend is so-called system-related and how much related to technological developments, and if you are unable to spend the full £700 million, will you keep a similar kind of balance between system-related investment and investment in technological developments?

(*Mr Dearing.*) Can I ask Mr Beauchamp to answer that and I will supplement it?

(*Mr Beauchamp.*) Out of the £700 million mentioned, most of this, of course, is for maintaining or producing new buildings for the mechanisation programme or for new vehicles. At a rough shot, we are talking about possibly £500 million, and then for the balance we shall be looking forward to new technology, to improving our services, developing new forms of mail, for example Intelpost and computer mail. In addition, we shall be looking at the mechanisation that we shall need on our counters. A lot will depend, of course, on the pace we develop the mechanisation programme as part of the system.

59. Could you answer the other part of the question, which was, if you cannot spend the full £700 million, would you expect, or would you want, to keep the same kind of balance?

(*Mr Beauchamp.*) Broadly yes; but I think if we were restricted on capital, the bias we should put on the ratios would be towards technology. It might mean that some of our larger buildings, which are not associated with mechanisation might have to wait. We would regret that but that is where I think it

would be sensible for us in economic terms to put the balance.

60. Are you disturbed therefore that the Department of Industry seems to indicate a different order of priority, that they expect more towards system related matters?

(*Mr Beauchamp.*) I think it is all very gradual and that this is a situation which will unfold as the programme develops. Given, for example, the cuts we are taking on next year, which are quite severe in comparison with the programme, we would like to move ahead with the mechanisation programme. The new technology, of course, will be moving gradually and therefore while in the short term one would be moving down the network road, as the network gets completed, then we shall move towards technology, so I do not think it is so much a difference of view between us and the Department of Industry; it is probably a question of timing.

Chairman

61. Is it correct that you are falling about two years behind schedule with regard to the provision of mechanised sorting offices?

(*Mr Beauchamp.*) Very broadly, yes. It could be more, two to three years.

62. Tell us why.

(*Mr Beauchamp.*) Basically the programme for letter mechanisation was designed to make the savings in the areas where we could get buildings up quickly. To that extent we tended to leave some of the larger conurbations to last. This included particularly London; therefore we had planned our programme so that by now we should be replacing some of the very large buildings in London and the large cities. It is that area which has been delayed by the capital restrictions and, that is having an impact on the rate at which we can install the equipment needed for mechanised sorting. This is why the programme is going back by two to three years.

63. From what you have just told us, it is not the lack of money?

(*Mr Beauchamp.*) It is, in fact, the harsh constraints of the cash limit which are impacting on the capital investment which we can spend. It is not our own source of financing.

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64. How much of the country is now covered by mechanised sorting offices?
(Mr Beauchamp.) Very broadly, between 45 and 50 per cent.

65. Are they the larger provincial conurbations?

(Mr Beauchamp.) That is right; we are now moving into the bigger London offices.

66. What do you say is the capital requirement here in the metropolis for mechanical sorting offices?

(Mr Beauchamp.) I would have to guess a bit. I would imagine some of the larger offices which we build could cost us between £15 million and £25 million. In total terms I would be thinking in terms of £100 million or there-about, say, £100 million plus.

67. Can you not convert existing buildings into mechanised sorting offices?

(Mr Beauchamp.) This is not easy because of the loading factors involved in mechanisation and also, of course, a lot of our larger offices were built towards the end of the last century or the beginning of this, and therefore are not readily adaptable to modern working.

68. So do we have to wait another two years at least before we get up to date:

(Mr Beauchamp.) We are moving with the programme as quickly as we can within the limits.

69. Or is it a continuing two years? When do you overtake that lag?

(Mr Beauchamp.) We had hoped to complete the mechanisation programme around 1983. We now see that extending into the period 1985-86 or 1986-87.

Mr Cockeram

70. Building contracts are coming in today at tenders less than was forecast and completions are coming up to time. You ought, therefore, to be exceeding perhaps forecasts made 18 months ago because that was not the experience at that time.

(Mr Beauchamp.) That is a very fair point and we have taken that into account in our calculations. We are noticing the flow-through but the delay is still around the two-three years period which I have mentioned.

(Mr Dearing.) I may comment to Mr Cockeram that, yes, there is better performance and cost savings on this side. It is a pity but an understandable one perhaps that we

do not have the money to spend. In fact, we do have the money because, as you may know, we have reserves which have been lent to the Government and the free sum is about £100 million at the moment. We are not allowed to spend this, and regrettably the opportunities may pass.

71. Would your pension fund not be prepared to invest in property in the centre of London and lease it to you?

(Mr Dearing.) It may well be.

Chairman

72. Had you not better leave that decision to the Trustees?

(Mr Dearing.) It would not help because under the rules of the game all borrowing is the same, wherever it comes from. It does not help if I can go and borrow from someone else other than the Government.

Mr Foster

73. I was going to ask how this was going to affect your performance. You have dealt with that. To summarise, is it not true that the Government procedures about borrowing are, in fact, restricting your ability to improve your performance, your quality of service and having the kind of productivity gains which you would require?

(Mr Dearing.) That is all true. I have problems but I do recognise that other people have problems too.

(Chairman.) Now let us look at current business trends.

Mr Maxwell-Hyslop

74. Mr Dearing, when we turn to agents and services, page 4 of your memorandum tells us that last year this accounted for 21.6 per cent of your income. Your report and accounts sub-divides it into services for outside agencies and for other Post Office business. Could you give us the main components of these two broad headings? I think that would be helpful.

(Mr Dearing.) Yes; broadly speaking, Government departments account for nearly 60 per cent of our business at the counters and of that by far the biggest is the Department of Health and Social Security which is 39 per cent. So 39 per cent is DHSS and the total 57 per cent.

75. 39 per cent of turnover or 39 per cent of profit?

(Mr Dearing.) This is of transactions, the proportion of business volume. Then the other major customers outside the Govern-

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ment are National Girobank, both its banking activities and postal orders, which come to 17 per cent; British Telecommunications which is 5 per cent or so; and the postal business which is the final 20 per cent. So it is roughly in round figures 60 per cent Government; 20 per cent postal business; 15 per cent Girobank and BT the rest.

76. The Department you have not mentioned is the Department of Transport and with the closing of local vehicle licencing offices you would expect that to increase, but that is since your last year's accounts. In last year's accounts how much business did you do with the Department of Transport?

(*Mr Dearing.*) 3.3 per cent of our business was for the Department. I hope I am right in that. May I take note of that and come back to you on it?

77. Yes, but it is something I want to pursue a little because, with the closing of the local vehicle licencing offices, what projection have you for that, supposing it was 3.3 per cent? Whatever it was, by what percentage would you expect it to increase as a result of the closure of the LVLO?

(*Mr Dearing.*) My colleagues advise me the figure I gave was right. We are hoping for a further increase of business from the Department of Transport, particularly through the sale of motor vehicle licence savings stamps, and that could provide us with another 1.5 per cent of counter traffic. This is an estimate. I cannot guarantee it.

78. So that is a bonus really on top of what I was meaning to ask you. Perhaps I was too imprecise. What I meant to ask you was, as a result of the closure of the local vehicle licence offices, it is to be expected, is it not, that more people will buy their licences direct from post offices than previously did so?

(*Mr Dearing.*) About 1 per cent.

79. So that makes a total going up from 3.3 to 5.8 per cent, does it not, an additional 2.5 per cent on 3.3?

(*Mr Dearing.*) Yes.¹

80. How do you split the commission in terms of sub-post offices? At the moment I understand you are limited by the Department of Transport to selling vehicle licences at 3,000 sub-post offices?

(*Mr Dearing.*) Yes.

81. Is that in England and Wales or England, Wales, Scotland and Northern Ireland?

(*Mr Dearing.*) That is all post offices.

82. How do you split the commission you get for the sale of vehicle licences in sub-post offices as between commission accruing to the sub-post master who sells them and what you keep for yourselves? I am informed it is a fact that in ratio you keep twice as much as you pass on; is that correct? I am informed by a sub-post master on that.

(*Mr Dearing.*) I have to confess I have not got the figures with me for this particular business but I can comment on the general point, if I may, you raise and perhaps I may be allowed to give a specific answer on this after research?

Chairman

83. Equally, would you let us have a note in writing of the exact figures in due course? Send it second class post!

(*Mr Dearing.*) Yes. We do have negotiations with the sub-post masters on the remuneration they should get for each individual class of business and perhaps if I said it might be a division of the order of fifty fifty that might be fair.

Mr Maxwell-Hyslop

84. It may be in future or at this moment?

(*Mr Dearing.*) It is an order of magnitude. It varies; it can be two-thirds that can go to sub-post masters. Let us, for the sake of discussion, pending detailed investigation on your question, assume that is the order of magnitude. Why should the postal business take half the income? The reason is that the Crown offices and the postal central units provide certain services roughly as follows: first of all, there is the determination of whether, and if so where, to establish or close a sub-post office. That does involve a great deal of consultation and work involving local authorities. Secondly, there is the cost of evaluation of applicants for the post, inspection of premises and provision of certain security arrangements. Then there is the initial training of the sub-post masters. Next would come the continual provision to him of information and guidance about an increasing range of services which the post office is offering. Then comes the provisioning of the 20,000 sub-offices with cash and stock, and this is a

¹ Note by witness: The figure of 1.5% quoted in the penultimate line of Para 77 should have been 1.8%, which figure subsumes the 1% referred to in Para 78.

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[Continued]

[Mr Maxwell-Hyslop Cont.]

major business. Next comes the audit of their activities and the investigation of complaints. Then we are responsible for receiving their weekly cash accounts and having these analysed according to all the various customers and checking these and going back to the post master with queries. Then we have to negotiate on behalf of the Government, as it were, (we are its agents) the terms and conditions of employment of sub-post masters and their wages. We deal with security problems. In short, we provide a whole range of back-up services to the sub-post master that is very expensive. I do not want in public to go into detail, although I would give the Committee, if you wished, in confidence a note on some of the aspects of what is involved in those services.

85. Do you mean vis-a-vis the trades unions?

(*Mr Dearing*) No, it has nothing to do with trades unions.

86. Would you welcome or resist a decision by the Department of Transport to extend to sub-post offices who wished to handle that class of business the issue of vehicle licences?

(*Mr Dearing*) We, the Post Office, and they the sub-post masters, would both welcome an extension of the business to many more sub-post offices. It is really the customer, the Department of Transport, that is determining this matter and there would be no problem at all from our point of view.

87. When we come on to measuring the cost of the transactions, in the Department of Industry memorandum which we have called PO3, paragraph 12.2, they refer to an on-cost margin of 4 per cent. How is that, in fact, assessed?

(*Mr Dearing*) This is now becoming rather dated because this derived from an agency services agreement negotiated between the Post Office and the Government whose life ends during the current financial year, and we are moving on to a new arrangement under which our profit margin is subject to individual negotiations with Government departments. This 4 per cent was designed to reflect three items; one, our return commensurate with our overall target of the 2 per cent return of turnover; two, an allowance for losses; and three, an allowance for risk. Those three together came to roughly 4 per cent.

88. What is the distinction between risk and loss? Is not loss merely the maturation of the risk over a period of time?

(*Mr Dearing*) Yes, I find the distinction more one of words rather than of principle, but that was the way it was formulated.

89. But you anticipate that this is now defunct and that there will be a new formula, whatever it may be, which will be more defensible and rational than that?

(*Mr Dearing*) Since that is behind us now, and I was not responsible, I can agree with that. It is more commercial and underlying it is the Government requirement that we reduce our real unit costs by 5 per cent. That applies equally to our counter work as to our postal work.

90. Lastly on this point, you got 21.6 per cent of your income through agency services. What percentage of that came through sub-post offices?

(*Mr Dearing*) About 60 per cent.

91. 60 per cent of 20 —

(*Mr Dearing*) That is, of traffic through sub-post offices.

92. Do you see in your future projection the sub-post office generation of agency commission as an increasing or decreasing or static percentage of your income from agencies?

(*Mr Dearing*) I would have thought it depends on the balance of the number of Crown and sub-post offices fundamentally. We entered into a commitment to Government to try, and indeed to maintain, the present network which is of getting on for 21,000 sub-offices, and the Crown offices which number some 1600. We did that, conscious that there is a number of offices that are very small and to whom the payment is greater than the income that would be justified by the number of transactions which they carry out. From memory, there are some 3,000 of these. Our commitment means that we need to continue to provide in the rural areas this kind of service. Given that we do so, then, unless there was a positive reduction in the number of Crown offices to sub-offices, I would expect the ratios to remain broadly as they are now, although in saying this, I have to concede that they are subject to negotiation. They are not something we impose in the negotiations with the National Federation of Sub-Post Masters.

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[Continued]

[Mr Maxwell-Hyslop Cont.]

93. Lastly, are you trying to expand your agency services for non-Government in the technical sense, agencies for instance, and direct paying of bills to water authorities through post offices?

(*Mr Dearing.*) Yes.

94. And also gas bills, electricity bills, rates, both commercial and domestic?

(*Mr Dearing.*) We have entered into a commitment to the Government to seek to increase our business and to offset the loss of the DHSS business so that we can aim to maintain the business for Crown offices and sub-post offices on average as it has been in the past. Therefore, we welcome the widening of our powers under the BT Act which enabled us to provide services, not only for Government departments, but also for nationalised industries. This brings in the gas and electricity bill payment where as a promotion measure National Girobank—and I will ask Mr Wainwright to come in in a minute on the National Girobank's contribution to counter business—through the Post Office offered a payment facility for gas and electricity bills without charge for three months. That has led to a marked increase in the number of people paying their gas and electricity bills. We have also introduced a facility for the purchase of rail cards on behalf of British Rail for certain classes of the population. We are seeking to interest the fuel industries in the sale of energy stamps and we already have these in Northern Ireland for electricity. We are seeking to extend the extent to which we provide travel passes on behalf of transport authorities. We are increasing the range of postal services we offer to offices, for example, Datapost on demand and the selling of parcel packaging material, partly to help ourselves reduce the number of packets that come adrift in the post. But I wanted to invite Mr Wainwright to come in, if I might, to indicate what he has been doing with his colleagues to expand Girobank which is a very major and growing customer, and also particularly the action taken to increase Girobanking business in rural areas.

(*Mr Wainwright.*) We did, towards the autumn of last year, start our country bank campaign that was designed specifically to increase the business of sub-post masters in the rural areas where there are places where quite often there are not banking facilities and where we see the need both for customers and indeed in order to maintain the viability of the sub-post office network.

We have done that. We indeed already have facilities where people can pay for their rates, gas and electricity bills and other utility payments across the post office counter. We are probably the largest rent collector in the country in that council rents, instead of having rent collectors going round, can now be paid across post office counters, and that has a number of advantages, particularly, of course, advantages of security.

Chairman

95. This must throw an enormous amount more work on a sub-post master in accounting to the various authorities?

(*Mr Wainwright.*) Yes. It is very welcome to the sub-post masters because they, of course, do get paid for it.

(Chairman.) Let us look at productivity.

Mr McNally

96. How do you measure productivity—by so many units of mail per man or what?

(*Mr Dearing.*) Yes. We count the number of hours and that is fairly straight-forward. As an order of magnitude one can think of about 340 million hours a year of men's wages. Then we have to count the number of items of mail and we relate the number of items of mail, expressed in a standardised way, to allow for the fact that parcels involve more work than letters, and divide the number of items by the number of hours, and that gives us a number of items handled per gross work-hour. That is our basic measure of productivity.

97. We have seen, both in your annual report and various publicity, the introduction of various new technologies. Are you finding any resistance from the work-force to mechanisation?

(*Mr Dearing.*) The attitude of any work-force must be two edged naturally to mechanisation, both seeing it as an opportunity for higher income, because it increases the income potential of the Corporation, and also as a challenge to the number of jobs. So I think any trade union would naturally regard any new technology with concern and want to be satisfied about its implications. My own view is that both in the mail side and on the counters the introduction of new technology is fundamental to the job security of the postal worker because the business cannot afford to be technologically obsolescent. This

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[Mr McNally Cont.]

mechanisation is required to enable us to continue to pay market rates. It does not provide a great opportunity for increased real incomes. It maintains our ability to pay the market rate.

98. But there is no particular piece of equipment that is being held up because it will not be worked by the work-force?

(*Mr Dearing.*) There are always detailed problems but we have a work-force that has the normal anxieties of any other workforce with a deep understanding of the business, and while in the past it is certainly the case that there has been strong opposition and resistance to the introduction of new technologies, I think and I hope I prove right, that there is a clearer understanding throughout the industry of the need to accept new technology. I am not saying there are not difficulties. They are in escapable, but they are not fundamental.

99. You did emphasise earlier that you are a labour-intensive industry and I understand something like 80 per cent of your costs are wage costs. If you are going to invest in new technologies, do you see that balance changing, that less of your costs are going to be wage costs and more in technology costs and capital investment costs?

(*Mr Dearing.*) Yes; gradually and not decisively we shall always be a predominantly labour-intensive business. If I can draw a distinction between the postal operations and the counter operations, and try to look ahead; in the postal operations we need to add to the present generation of technology optical character recognition equipment so that the post code, and part of the address, can be read by machine rather than by a human. We shall have to see that in during negotiations with our trade unions. We have the first plant now in the course of development in this country and we plan to have trials of it this year. On the counter side, there are bigger potential changes in technology which are already in evidence overseas in which the counter clerk is provided with a terminal and a small printer so that when he is providing banking services for the Girobank or the Department of National Savings, he can access directly the customer's account and therefore enable the customer to draw bigger sums than at present is possible. There are other possible ways in which that technology can be used. This technology is potentially fundamental to the counters

and it should, in fact, ease the counter clerk's job because a major part of the counter clerk's job now is to balance the transactions which are very heavy and he will be able to have a continuing balance through the computer support he will have. I would hope to see that technology being fundamental, to the way we do our counter services in the middle and later years of this decade.

100. One of the things about productivity is not just new technologies, but using present investment more efficiently and one of the ways that has been suggested is more multiple shift working and more use of casual workers or people working less than a full week filling in the peaks, as it were. How much progress are you making towards that and is the union resistant?

(*Mr Dearing.*) The unions for fifty years have been generally against, and they will correct me if I mis-state their views, the general introduction of part-time workers. There are part-time workers. I think there are about 8,000 in the Post Office at the moment. It would undoubtedly, in my view, increase the efficiency of our operations if we used part-time workers in sorting offices to a very considerably greater extent. There could be improvement in rotation arrangements as between supervisor and postman. There would be advantages in changing the arrangements we have for the operation of coding desks and the selection of operators. There are many areas where there is scope for improvement, but in conditions like the present one must understand the reservations of the work-force about changes in their work practices. It is really up to us to carry conviction with them that these are, in fact, in the interests of their members and will increase the job security of their members.

101. Do you have a direct link in your pay negotiations between pay negotiations and productivity?

(*Mr Dearing.*) Through the improved work methods scheme we have a scheme for postal workers which includes postman and postman higher grade, which is the great bulk of our numbers, under which they are able to earn payments for improved productivity, and we only pay for savings actually achieved week by week. This is not automatic, but it is for actual achievement, and this is having currently, it is estimated, a benefit to our productivity of perhaps 250,000 hours a week.

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[Continued]

[Mr McNally Cont.]

102. When Sir William Barlow appeared before this Committee, he caused a little bit of a stir by saying it had crossed his mind to look at some of those continental practices of post boxes at the entrances to blocks of flats and perhaps even the American system of post boxes at the end of long drives. You mentioned earlier the problem of many more addresses now. Have such thoughts crossed your mind?

(*Mr Dearing.*) Yes, they have, and there was some discussion in Parliament when the BT Bill was going through. We may be driven to this. We may be driven to changes in delivery arrangements which I said in this country were more generous and comprehensive than in most other advanced countries, but as of now, given the commitment I expressed to increasing volume, I would not think this would be the right time to consider any significant changes in the nature of the services we provide for our customers. I would rather use the opportunity which I hope is going to come from an increase in the level of economic and commercial activity in the year ahead to maintain roughly our present product and see if we can increase the volume and get our reduced costs that way.

103. Finally on productivity, the Chairman's earlier nightmare that he is going to wake up and find all these letters on his video machine near his bed; what timescale, when you say you think you can maintain the volume, are you thinking of, and is it as in the United States of filling the gap between what the electronic mail takes over by more commercial mail or what the Americans describe as junk mail?

(*Mr Dearing.*) Yes, this is commercially interesting mail to us. I hope I am right in saying that our share of that particular market, and I am talking of the market in general terms, that is for the communication of advertising to the public, whether through television, radio, the press or the post, is growing at a faster rate than our competitors. Yes, we aim to fill up that and our percentage is far lower than the Americans. Also, we ourselves are going for electronic mail. We intend to use the telecommunications technology to the advantage of the postal service rather than saying it has nothing to do with us.

Mr Cockeram

104. On that point, you have a target of 90 per cent of first class mail delivered the

following day. Like all targets, you do not always hit the bull's eye, I guess?

(*Mr Dearing.*) Yes.

105. Another way of expressing that is to say it is ten per cent plus you fail. Are you satisfied with that?

(*Mr Dearing.*) Another way of saying it is ten per cent you fail? I believe, and those who have examined it from outside believe, that at the cost within which we seek to operate, given that we do not control the railway system or the airways system, or sometimes the road network, it is a realistic level of non-achievement. I would like to do better but it would cost money.

Chairman

106. May I just put one point? May I have a very quick answer, Mr Dearing? So that you may have a chance of agreeing or denying it, in that paper to us it states that although there was a fall of something like 13 per cent in productivity between 1970 and 1976, there has been an improvement modestly, but the levels of items handled per gross hour are still below those of 1970-71.

(*Mr Dearing.*) I have not got the figures for 1970-71 in front of me. It is true that the level of productivity is lower. This reflects the fall in the volume of mail. Again, I have not any figures in front of me but I think the fall in the level of mail over this period has probably been of the order of 12 per cent. Because of our fixed costs that would account for about a 4 per cent reduction or a 4.5 per cent reduction in productivity. Second, there has been an increase in the number of addresses in the period. Third, the number of hours worked per year has reduced in accordance with the general level in the reduction of hours in society. So there is a number of factors which contribute to cause this, but it is clearly our job to seek to recover to former levels of achievement and this year I see that the Department of Industry's memorandum, and I have got it open, looks to an increase in mails productivity of about 2 per cent or 2.5 per cent. I think we shall do better than that because we are exceeding our expectations on volume. I am hoping that the increase in mails productivity will be nearer 3 or even 3.5 per cent over the year and this will take us to a higher level of productivity than for some years, in spite of the effects of the slump in volume last year, and next year our plans are to take it further forward. So that our levels of productivity are now

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[Continued]

[Chairman Cont.]

matching those in the mid-seventies, and we are seeking to push the frontiers back. In London we expect by the end of this year to have increased productivity by 11 per cent in two years.

107. We have about three small quick hard questions to ask you before we conclude. Before I ask Mr Cockeram to kick off, as it were, I notice in your memorandum you quite rightly said as a public body accountable to Parliament as its shareholders you expect to be monitored but sometimes this is done to the detriment of time and energy needed for improvements of the industry. I notice that three items in the monitoring consist of requirements to give evidence to parliamentary committees from time to time, letters from Members of Parliament and parliamentary questions, and a close watch kept on the Post Office activities by the media. Are you really oppressed?

(*Mr Dearing.*) Very; I put this in because we were asked, I understand, to express a view. It is not a new point I am making. It is a point that has been made over the generations by chairmen and there is an impossible balance to be struck between those to whom the nationalised industries are responsible and the need of management to get on with the job. I have seen it twice from both sides of the fence because the Post Office is not the only nationalised industry I have worked in, and I did not have parliamentary committees particularly in mind in saying this. What I did have in mind is that the Board of any public corporation, if it is any good, knows what is wrong, or it jolly well ought to, and its energies need to be devoted to putting it right, rather than defending why it has not done better. This is the balance that has to be struck, and one could discuss this at great length but I do not think it worth the committee's time.

Mr Cockeram

108. Chairman, you had a recent inquiry by the Monopolies and Mergers Commission into the Inner London situation. Do you consider that inquiry to be thorough and searching? Do you consider it to have been helpful or deflecting you from your daily management tasks?

(*Mr Dearing.*) The answer to the first question is yes. The answer to the first half of the second question is yes. The answer to the second half of your second question is no.

109. Do you, therefore, intend to implement the recommendations that were made, so far as it is in your power to do so?

(*Mr Dearing.*) I believe they made about 45 recommendations. I think we rejected consciously one.

110. Are you aware of any further inquiry of a similar nature contemplated?

(*Mr Dearing.*) No. I have no doubt whatever that there will be further inquiries because the Government has made, or is going to make, a statement of policy. I think it has made one about the Monopolies and Mergers Commission making an inquiry into the nationalised industries every three or four years. I have no doubt at all that, perhaps next year, we shall be receiving further help from the Commission.

111. Would it be under the belt to ask the question: would you concede that the consumer has benefited as a result of that inquiry?

(*Mr Dearing.*) I think the consumer, the worker and the business have benefited from that particular inquiry which was well-conceived in being focussed on a specific area of activity, which enabled the Commission to go into it in depth. It operated closely in the sense that it wanted a lot of papers and to have a lot of talks with management. So its conclusions were well-informed, and they were directly relevant to a very serious problem facing the Post Office at that time; that is, provision of an efficient and effective and reliable postal service in London which we were not giving.

Mr Stevens

112. Mr Dearing, is it too soon for you to judge the effect of the interference with your monopoly situation? On page 12 of the Department of Industry document they list the things they have derogated from the monopoly and have gone on to say two stops later that it only affects about 2 per cent of your business. What is your view? Have you got a view yet?

(*Mr Dearing.*) I would say the Department of Industry is right that the potential effect could be 2 per cent of our business. This Christmas, which was the first one where we faced competition, we had no loss of volume compared with previous years in spite of the recession. This may have been because of the Post Office being able to maintain services in the most appalling weather conditions, whereas it would be very difficult for some charities to operate

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[Continued]

[Mr Stevens *Cont.*]

in those circumstances. There is increased competition in the premium service areas and we are holding our own. We are operating profitably. We accept the competition.

Mr McNally

113. On Girobank, are there any operational and financial links between the Post Office and Girobank?

(*Mr Dearing.*) Yes. The point at which they come together is the post office counter where I look to the post office counters as analogous to the cab on the rank which provides services to anybody who can legally buy them and Girobank is a major buyer of its services.

114. What about the efforts to get more people to have their wages paid by Giro? Is that still a conscious effort and is it being successful?

(*Mr Wainwright.*) Yes, it is a conscious effort. We have recently joined with the other high street banks in setting up a wages working group. That has created quite a great deal of publicity. We ourselves are in constant discussions with employers and employees, with the CBI and the TUC and we are making progress and there is now actually a swing towards getting rid of payment in cash.

115. What about what was said in one of the memoranda, and I think it was yours but it might have been the one from the Department of Industry, about your being very successful in getting local authority accounts and nationalised industry accounts? Are you making a drive for other corporate accounts?

(*Mr Wainwright.*) The local authority accounting was one I referred to which is basically rent payments across post office counters in exactly the same way as gas and electricity and so on. We do handle a very large proportion of the retail money transmission service. Most of the very large retailers are customers of ours and they will pay their daily takings into their account with us at the post office. We now handle about £20 billion a year in cash flow.

116. What about individual customers? Have you peaked or is it going up for the opening of new accounts?

(*Mr Wainwright.*) Our personal customers are increasing at quite a significant rate currently as a result basically of our advertising and a new campaign. We do

have certain advantages, including the opening hours and being open on Saturday morning. We are currently getting something like 7,000 new applications every week and that is a very much larger share of the market than we enjoy at the moment.

117. Just on marketing, in the Department of Industry paper it says, and I quote, 'Girobank has no direct control over its outlets, its productivity or its costs', and that there is no feasible alternative at least in the short term. That last bit at least, 'in the short term', suggests that you might be thinking of alternatives in the long term. Are you and what are they? Are you thinking of separate Girobanks like the Midland Bank or do you see your future still being across the counter in the post office?

(*Mr Dearing.*) Yes — the second.

Mr Maxwell-Hyslop

118. Or the pub?

(*Mr Wainwright.*) In so long as the publican is a sub-post master, yes. There are actually—

119. In so far as one of the great advantages which you have, which you have mentioned, is that you are open when the banks are not, there are certain types of business that are open when the post office is not, and the most obvious one that comes to mind is the pub. So has it occurred to you to enhance that advantage you have of your customers having access to you when the normal banks are shut and now a further step when the post offices are shut, just to go one step beyond Mr McNally's question?

(*Mr Wainwright.*) I think the step to go beyond that is cash dispensers and that is something which we are looking at.

(*Mr Dearing.*) I would be concerned about our customers' judgment in relation to their accountants!

(*Mr McNally.*) We spent 200 years trying to stop wages being paid in pubs!

Mr Cockeram

120. You are probably the country's largest retailer, with a high street shop often at a Victorian cost to you, in every town in the country of any size. Retailing in this country has been a very profitable business compared with manufacturing over the last few decades. To what extent do you plan to capitalise on this vast investment that you have at an historic cost, as I say, to market your products and perhaps the products of

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[Continued]

[Mr Cockeram *Cont.*]

others on these sites because the potential is enormous in any retailing sense.

(*Mr Dearing.*) I agree with the tone of those questions and their implications. There are two comments I would make. It is an immense asset as a comprehensive network providing, in the eyes of the customers, pretty well the same service in any post office. That is why I was sympathetic about Mr Maxwell-Hyslop's question about motor vehicle licences. That is a strength. Secondly, we have markets. Counter services have not been marketed in the past. You may have noticed in the last six months we have been taking full page advertisements, 'Come shopping at the post office', and we give our products. We have now decided that the frontages of post offices are not just to contain the interior. They have potential for a business purpose; not all of them. Some of them are distinguished Georgian style or Victorian buildings. But some of our modern buildings have frontages that can be used to market. We have just conducted an experiment in the Trafalgar Square Post Office and the degree of notice by the public we had—and a study was made—was above average. We are now planning to refine that concept which we have put to our design committee which includes distinguished outsiders, in the hope that we will be using about 300 of these current windows before very long to market our products in a professional way. Also, there is a question of the role of our counter clerks and our counter supervisors. They need to be less concerned, and this is where the new technology comes in, with the technical problems, of balancing to afford more time to selling services. It was interesting when I was at London Airport, Terminal 2, on Monday, having previously asked that we should display our philatelic material prominently in that small office. I went up to the counter clerk to ask what effect it was having on people. He said, "People come up to the counter for X, they see the stamps and they buy them". So we must use all the modern technology and thinking to treat these as retail outlets, to regard them more as shops than as counters, and to pursue that policy we have established in the last few months a new Counters Department in the Post Office which will be progressively developed into a profit

centre in its own right. We aim to help staff to see their role differently, to discuss a change in the role of the supervisor, and enlarge the range of activities using, in particular, Girobank. I see this as a very exciting opportunity for the Post Office.

121. Would you accept while a shop keeper seeks to promote his products and regards his windows and kerb space as profit potential and uses his display windows, the traditional image of the Post Office as a bit of fibre-board painted red with 'Post Office' on it is not exactly maximising the potential of the site?

(*Mr Dearing.*) I should not say this but I will. We have followed the practice of the joint stock banks in being discreet and having prestige. I am less interested in prestige and more in selling the product. So we are changing our image. I think it goes with the image of Girobank and the kind of advertising material which is bright and modern rather than respectable and not very adventurous.

Chairman

122. Mr Dearing, that brings us to the end of the specific questions we wanted to ask you this morning. Perhaps there is something we have omitted that you would like to say. I have to add, in the time-honoured words, you are not obliged to say anything.

(*Mr Dearing.*) No, Sir, I have nothing to add.

123. It remains for me, on behalf of all my colleagues, to thank you and those who have accompanied you for your attendance this morning, and particularly for the manner in which you have answered our questions. You will not forget to send us the letter you promised us because we are expecting a letter from you and we hope to get it in due course. We may require to see you again. We are seeing a number of other witnesses in the course of this rather brief inquiry which may run over three or four weeks. It could be that on matters arising out of the answers we get we may ask you to come back for a very short time.

(*Mr Dearing.*) We shall be at your disposal.

WEDNESDAY 10 MARCH 1982

Members present:

Sir Donald Kaberry, in the Chair

Mr Robin Maxwell-Hyslop

Mr Ian Mikardo

Mr Martin Stevens

Mr Eric Cockeram
Mr Stan Crowther
Mr James Hill
Mr Thomas McNally

THE POST OFFICE: CURRENT STATUTORY AND
FINANCIAL POSITION AND FUTURE PROSPECTS

Note by the Department of Industry (PO3)

1 *Introduction*

1.1 Following 300 years as a Government Department subject to detailed Ministerial control, the Post Office was established as a public corporation under the Post Office Act 1969 with statutory powers and duties and with a Board and Chairman appointed by the appropriate Minister. (At the time the Minister was the Minister of Post and Telecommunications (MPT); in 1974 when the MPT was dissolved, responsibility passed to the Secretary of State for Industry.)

1.2 The British Telecommunications Act 1981 formally separated the Post Office into two independent corporations, the Post Office and British Telecommunications, with the Post Office continuing to provide postal and counter services and, through its banking arm, National Girobank, banking and money remittance services. The Postal Business and the National Girobank, although both parts of the Post Office, operate as completely separate entities with separate accounts. The Post Office broadly retains its statutory monopoly on letter post services, but subject to new powers to permit the Secretary of State to make derogations from the monopoly.

1.3 This note, a copy of which has been given to the Post Office summarises the present statutory and financial position of the Post Office and its future prospects. Some basic statistics on the Post Office are at Annex A.

POSTAL BUSINESS

2 *Background*

2.1 The Secretary of State has various statutory powers and functions relating to the Post Office. In addition to appointing the Board, he has statutory powers to direct the form of and the information to be contained in, the annual statement of accounts, and he may determine the financial objectives, and in conjunction with the Treasury approve each year a programme of capital investment and authorise its borrowing both as to extent and source. The borrowing limit of Posts and National Girobank together is currently £1,200 million (BT Act S 74). Current borrowings for both businesses are £219 million (including Public Dividend Capital of £22 million). The Secretary of State also has certain limited powers of direction; he may give the Post Office a direction of a general character to exercise its powers in the national interest or in the interests of national security, or a specific direction to cease exercising undue preference or discrimination in connection with its monopoly powers or to exercise its powers to comply with an international obligation binding on the Government. The Secretary of State's powers have been extended under the British Telecommunications Act 1981 to empower him to direct the formation and disposal of subsidiaries. He may also require the Post Office to supply him with such information as he may specify provided the Post Office may reasonably be expected to obtain it. The Act also provides for the Secretary of State to make derogations from the postal monopoly either through the issue of a general licence to a class of person or a specific person enabling them to carry letters or certain categories of letters or he may suspend the monopoly in part or in whole by statutory instrument subject to negative Parliamentary resolution.

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2.2 The Post Office nonetheless has a considerable degree of autonomy in its day-to-day management within the broad framework set by the Secretary of State. The Secretary of State does not have a statutory power over tariffs, or to intervene in industrial relations negotiations or in specific operational matters. These are within the Post Office's own responsibility, although it is required to consult the Post Office User's National Council (POUNC) on all major proposals relating to its main services, such as tariff changes. The Council usually sends its comments to the Secretaries of State for Trade and Industry, but neither the Council nor the Government is empowered to delay, prevent or amend tariff changes or to intervene in operational matters.

2.3 POUNC (and the three Post Office Users' Councils for Scotland, Wales and Northern Ireland) were established by the Post Office Act 1969 to consider matters relating to the services provided by the Post Office. The Councils are appointed by the Secretary of State for Trade.

2.4 The Post Office also carries out certain functions on an agency basis for Government Departments, for instance the administration of the National Television Licensing Record Office for the Home Office or the payment of pensions and other benefits over the Post and sub-Post Office counter network for the Department of Health and Social Security. The British Telecommunications Act 1981 extends to a wider range of public sector bodies those for whom agency services may be transacted by the Post Office over its counters, subject to authorisation by the Secretary of State.

2.5 International postal matters are regulated by the Universal Postal Union (UPU) a technical agency of the United Nations. Since the UPU is established by and operates under international Treaty the Government is the formal member. Day-to-day work is divided between the Post Office taking responsibility for operational matters and the Department of Industry for political, budgetary, and administrative aspects. The DoI also co-ordinates where the interests of the postal administrations of the British Dependent Territories and of the Channel Islands and the Isle of Man are concerned.

3 Departmental Monitoring

3.1 There are various ways in which the Department monitors the financial performance of the Post Office, in both the short and longer term. The information described below is provided for the individual businesses in monthly, quarterly and annual reports and, in addition, the Annual Report and Accounts of the Corporation as a whole.

3.2 The Department receives from both the Post Office and the National Girobank monthly funds flow statements prepared along the lines of a standard form laid down by the Treasury and the Central Statistical Office, which comprises a summary of sources and uses of funds. There are also quarterly reports which provide more detailed analysis than the monthly statements including a profit and loss account and include fuller material on physical performance. These monthly and quarterly reports are the basis of regular meetings between the Department and the Post Office, to discuss, for example, any problems which the monthly reports have shown up, the implications of any tariff proposals, or forecast performance against financial objectives and the external financing limit (see below paragraphs 5.1-5.10).

3.3 The longer term is usually the subject of two annual exercises the Investment and Financing Review and the Corporate Plan, again provided separately for the Postal Business and for the National Girobank. The *Investment Review* covers a period of five years ahead and includes fairly detailed forecasts of the Post Office's investment plans, revenue flows over the period and its borrowing needs. These forecasts are examined by the Department and the Treasury and may be subject to modification as a result. They then go on to form the basis of the capital investment and borrowing figures which Ministers approve in the annual Public Expenditure Survey and which are published in the Public Expenditure White Paper. These figures are also the basis on which Ministers give final approval for the Post Office's capital expenditure programme. This is normally done on a tapering basis: approval of 100 per cent of the agreed investment programme for one year

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ahead, 85 per cent for the second year and 70 per cent for the third. As with all nationalised industries' investment the Post Office's new investment is expected overall to be cost-effective.

3.4 *The Corporate Plan*, now entitled the Environmental Review, covers a 10 year period ahead, and provides an opportunity to discuss with the Post Office how it sees its longer term business prospects, what strategic options it has considered, which its plans are, and what long term opportunities there are for improving productivity and efficiency.

3.5 In addition the Annual Report and Accounts provide useful detailed information not provided in the monthly and quarterly reports. The Post Office also publishes unaudited half-yearly Accounts. The Report and Accounts normally contain a consolidated account of the Corporation as a whole which is audited, and separate audited accounts for the three main businesses — Posts, National Girobank, Postal Orders.

4 Investment Programme

4.1 The Postal business capital investment is small in comparison with its annual turnover. Over the past five years investment in fixed assets (including capitalised value of leasing) has been:

	£m (outturn prices)	80/81 prices
1976/77	38.9	62.8
1977/78	34.7	51.4
1978/79	42.5	57.3
1979/80	64.0	72.0
1980/81	76.0	76.0

4.2 In 1981/82 approval has been given for a capital investment programme of £134 million (estimated at £119.7 million in 1980-81 prices). About 75 per cent of Postal Business investment is normally devoted to accommodation and vehicles, which are basically investments to maintain the system. The remainder of the investment is in the area of postal plant and office machinery/computers. In 1981 after several years of low investment spending the Post Office sought approval for substantial real increases in capital investment, primarily in the area of buildings renovation and renewal following assumption of full responsibility for the management of the postal estate.

4.3 The general categories of capital expenditure may well in the longer term reflect a greater emphasis on technological developments in the Post Office's competitive and monopoly services in response to the changing demands and character of the business. Nonetheless, in the foreseeable future it is probable that investment will continue to be concentrated primarily in system related areas.

4.4 The Department of Industry and the Treasury expect the Post Office to appraise its investment projects so as to satisfy normal commercial criteria, but in the case of system related investment (accommodation and vehicles) conventional appraisal methods may not always be appropriate.

5 Objectives

5.1 The Government's policy is to avoid interference in the day-to-day financial and operational management of the Post Office but to set the Corporation clear objectives which it is expected to achieve. These objectives fall under three headings: financial targets, external financing limits and performance aims.

i Financial targets

5.2 Separate financial targets have been set for the two businesses, Posts and National Girobank, to reflect their different character and competitive environment.

5.3 Posts' target since 1978/79 and which is in force until the end of 1982/83 has been to

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achieve a 2 per cent annual return after interest on turnover which is equivalent to about 3 per cent on net assets at replacement costs after interest. Its performance over the last few years has been:

	1976-77	1977-78	1978-79	1979-80	1980-81
Target	none	none	£29m	£34m	£42.5m
Achievement	£24.3m	£40.4m	£33.1m	£34.1m*	£23.3m*
	(2%)	(3%)	(2.3%)	(2%)	(1.1%)

* excluding extraordinary items.

In 1981/82 the latest forecast indicates that the Post Office will meet its target.

ii *External Financing Limits (EFL)*

5.4 These limits which are set for the Post Office as a whole, but with an allocation to each of the postal business and the National Girobank, refer to the amount the industry will be allowed to borrow/be required to pay back to complement the revenue generated within the business in order to finance its capital investment requirements. Until 1980/81 the EFL was set jointly for Telecommunications, the postal business and National Girobank with separate allocations for each within the total.

5.5 The Post Office has had a negative EFL (referred to as 'cash limits' in the earlier years) since 1975-76, except for the current year 1981-82 where an EFL of £23 million has been set (allocated £10.5 million to Posts and £12.3 million to National Girobank). Following surpluses against the EFL for two or three years, in 1979-80 and 1980-81 shortfalls of £4.8 million and £10.5 million were recorded (the National Girobank in each case contributing a small surplus of £1-£2 million). The Post Office confidently expects to remain within its EFL in 1981/82.

iii *Performance Aims*

5.6 The performance aim for the Post Office announced by the previous Government in the White Paper (Cmnd 7292) in response to the Carter Committee's Report (Cmnd 6850), was that taking 1977-78 as a base, Posts should aim to keep its real unit costs constant over the five years to 1982-83. In the first three years (to 1980-81) Posts real unit costs rose to 4.3 per cent above the 1977-78 level but are forecast to be held at this level in 1981-82.

5.7 Following a review during 1981/82 a new performance aim has recently been announced in which, taking 1981-82 as a base, Posts real unit costs will be reduced by 5 per cent in the three years 1981-82 to 1984-85; 2 per cent of this reduction falling in 1982-83.

Quality of Service

5.8 Although not formal targets, the current internal Post Office targets have been accepted as reasonable for the present by the Government. These are that 90 per cent of 1st Class mail should be delivered by the first day after collection (day B) and that 96 per cent of 2nd Class mail should be delivered by the third day after collection (day D). The quality of service, since the summer of 1979 when it fell to an unacceptably low standard, has improved and is now approaching the targets although still subject to seasonal fluctuations and to the effects of unexpected influence, e.g. the exceptionally cold weather, ASLEF strikes. The Post Office now publishes quarterly national and regional quality of service information, and supplies information to the Government on a monthly basis.

5.9 The average annual quality of service figures for the last three years, show the trend:-

	1st Class Letters delivered by Day B [target 90%]	2nd Class Letters delivered by Day D [target 96%]
1979-80	78.9%	82.1%
1980-81	86.4%	92.3%
1981-82 (cumulative to 12 December 1981)	88.4%	93.6%

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6 Relations with the Public

6.1 The Department handles a number of complaints from the public about postal service. In most cases these are concerned with detailed operational questions for which the Post Office has full statutory responsibility and are consequently referred to the Post Office for reply. The number of complaints to the Department has fallen from 640 in 1979/80 to about half that level in the current year. A better indication of consumer response is, however, the number of complaints reported by the Post Office Users National Council which has the statutory responsibility for receiving such complaints. Their published reports show a similar decline from 5,066 complaints received in 1979-80 to 3,184 in 1980-81.

7 Mails Productivity

7.1 Early in 1980 an experimental mails productivity bonus scheme (known as the Improved Working Methods (or IWM) scheme) was introduced into several London Offices on a voluntary basis. The scheme provides for bonus payments representing 70 per cent of the cost of hours saved while maintaining quality of service. In April 1981 it was formally accepted by the Union of Communications Workers annual conference which allowed its implementation nationally although still requiring the agreement of the local workforce. The schemes currently in operation cover in excess of 40 per cent of the workforce.

7.2 The success of the scheme, along with other measures taken by the Post Office, can be seen from a comparison of changes in total mails operations hours with changes in the volume of traffic. This comparison is only a crude measure of productivity as it takes no account of the different levels of work involved in handling for example parcels and letters.

	1979-80	1980-81	1981-82 Target	1982-83 Provisional
Total Mails				
Operations hours	353m	347m	334m	325m
% change in hours		-1.7%	-3.75%	-2.7%
% change in traffic		-1.0%	-1.6%	-
Productivity Gain		+0.7%	+2.2%	+2.7%
			(Target)	(Provisional)

These improvements in productivity follow a period of decline over the previous decade when productivity nationally fell by something like 12-15 per cent, with a fall of up to 25 per cent in Inner London.

8 Postal Tariffs

8.1 The level of tariffs is influenced by a number of factors: the ability of the Post Office to contain costs including staff costs which form 80 per cent of the total; the extent to which it can increase its volume of traffic or, in present circumstances, contain the fall in traffic, and improve generally its productivity and efficiency. Over the period since 1975 postal tariffs have risen at a rate slightly lower than the rate of inflation, although within that timescale there have been periods such as in 1979-81 when postal price increases exceeded the growth in RPI. The Chairman of the Post Office has declared his intention of ensuring that future tariff increases will be within the general rate of inflation and will not take place more than once every twelve months.

8.2 In addition to the above factors, *overseas postal tariffs* are influenced by the level of the "terminal dues" which the Post Office is required to make to other administrations in cases where the UK sends more mail to the country concerned than it receives. In 1979 at the Universal Postal Union Congress, terminal dues were substantially increased as from 1 January 1981 with consequent effects on overseas postal tariffs. Unlike some other postal administrations, the UK Post Office does not subsidise printed paper sent overseas.

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9 The Letter Monopoly

9.1 Prior to 1981, the statutory postal monopoly covered the receipt, collection, conveyance and delivery of letters but not parcels or newspapers. There were various comparatively minor exceptions to the letter monopoly set out in Section 3 of the Post Office Act 1953.

9.2 Arising from public concern at the deterioration of the postal service in 1979, at the instigation of the Secretary of State a review of the postal monopoly was undertaken by the Post Office and, independently, by the Department, involving consultation with a wide cross-section of those with an interest in postal services. The Secretary of State in his statement to the House of Commons of 16 July 1980 drew on these reviews and on the report of the Monopolies and Mergers Commission into the Inner London Letter Post (see below) in concluding that it would be sensible to make some modifications to the scope of the postal monopoly and he outlined certain measures intended to clarify the law and to introduce competition into certain areas of the monopoly. An important first step towards clarifying the law was to define a letter, previously undefined, and as a result certain further clarifications/exclusions from the monopoly were thought desirable, chief of which were:

- a Air Couriers — the conveyance of an overseas letter to an aircraft by a messenger sent for the purpose and the conveyance of that letter out of the UK by that aircraft.
- b Part-carriage — the part conveyance of prepaid or stamped mail provided it is subsequently introduced into the Post Office system — the aim being to allow customers to avoid bottlenecks.
- c Business Group Mail — the conveyance by an employee of a group of companies of business mail relating to any member of the group (previously only permitted for employees of individual companies even if in the same group, and even this uncertain).
- d Banking Instruments — the conveyance of banking instruments between banks and to or from a bank and a Government Department (to ensure the clearing process unimpeded).
- e Electronic mail — the Post Office to have no monopoly of carriage of letters which either were to be or had been transmitted by means of a telecommunications system.

i Derogations from the Monopoly

9.3 The Act also includes provisions which give the Secretary of State power after consultation with the Post Office to suspend the monopoly for certain categories of mail or in specific geographical areas and to grant licences to certain persons or classes of person to undertake certain activities within the scope of the postal monopoly. These powers are being used to bring about the specific relaxations in the monopoly referred to in the statement, namely:

- a Time sensitive/valuable mail
An Order made by Statutory Instrument was laid before Parliament on 16 October 1981, coming into effect on 7 November 1981 suspending the postal monopoly in respect of this category of mail, subject only to a minimum charge for each item of mail carried of £1.
- b Charities delivering Christmas Cards
A general licence was published on 20 November in the London, Edinburgh and Belfast Gazettes permitting charities to deliver Christmas Cards. The licence, which runs until 1 January 2007, comes into effect on 25 November each year and applies until 1 January in the year following.
- c Document Exchanges
A general licence is in preparation and is expected to be finalised shortly. The licence will permit document exchanges to transfer mail between each other.

9.4 No further derogations from the monopoly are currently envisaged but the Secretary of State has said this will depend on the Post Office's performance in serving the public, particularly:

- a where it fails to respond adequately to new market demands, or
- b where, after due warning, it fails for reasons within its control to provide an adequate service either nationally or in a specific geographical area, or
- c in the event of industrial action within the Post Office which results in the cessation or serious decline in the quality of service.

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Effects of Liberalisation

9.5 The effects which can be ascribed to the new Act and the measures implemented above are difficult to quantify because of the confused situation which existed previously on the extent and definition of the postal monopoly. A number of express courier services were well established before the Act came into force. The clarification of the law and the suspension of the monopoly for time sensitive mail has been welcomed by the express and air courier services, by allowing them to publicise their express services and compete openly for what is clearly a growing market although it is not possible to obtain figures on the number of courier firms or the volume of their traffic. It is too early to assess how this will affect the Post Office, but it has extended its marketing and range of services in this area.

9.6 The volume of Post Office traffic and revenue put at risk by all the measures taken (excluding Christmas Cards) can only be roughly estimated at 1-2 per cent of total traffic. The level of actual loss of traffic will depend to a large extent on its ability and success in competing in the areas thrown open to competition.

10 The Monopolies and Mergers Commission Report on the Inner London Letter Post

10.1 The Secretary of State for Trade announced on 12 September 1979 that he was referring the letter service in the Inner London postal area to the Monopolies and Mergers Commission (MMC). This followed widespread disquiet concerning the postal service in the London area and the extent to which performance in London was affecting the service elsewhere in the country and the overseas service.

10.2 The MMC Report, presented to Parliament on 31 March 1980, highlighted a number of detailed weaknesses in management, staffing and working practices in the London postal service which had led to the serious deterioration in service. Foremost among these had been the substantial decline in productivity of between 20-25 per cent in Inner London since 1968 and the MMC recommended that the Post Office set itself the target of restoring the 1968 levels of productivity within 3 years.

10.3 The Post Office in its response accepted all but four of the Commission's 45 recommendations. The Department has monitored closely progress in the implementations of the MMC recommendations and recent reports indicate that 24 of the recommendations have now been fully implemented or have been incorporated in Post Office policy and those remaining are in the process of implementation. As described earlier, quality of service has recovered nationally and this applies equally to London. The Post Office agreed with Government a target of a 15 per cent gain in productivity in Inner London in the following 3 years with the possibility of further productivity gains thereafter. An improvement of 4.6 per cent was recorded in 1980-81 and it is expected that a further gain of about 5 per cent will be achieved in the current year 1981-82. This has been helped by the high proportion of London postal staff (80 per cent) participating in the IWM productivity scheme.

11 Parcels

11.1 The market in the carriage of parcels is competitive, involving both private and other public sector bodies. In 1979 a survey carried out by the Post Office gave an estimated breakdown of the market shares for parcels in the weight range 0.7 kg to 10 kg:—

Post Office	42% (including some letter packets and premium service items representing about 8% of the total)
Firms' own transport	34%
Private Carriers	15%
British Rail	4%
Roadline	3%
National Carriers Ltd	2%

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11.2 During 1980-81 the volume of traffic carried by the Post Office declined from 180 million the previous year to 172.4 million items reflecting the fall in mail-order business but with the Post Office retaining its market share. The latest indications are that the fall in traffic will be recovered by the end of this year and will continue to grow at a higher rate than the growth in Gross Domestic Product. The Post Office aims to retain its volume in the business-private sector and sees some potential for increasing its market share in the business-business area.

12 Counters

12.1 Counter services are provided by 1,581 Crown Post Offices (handling approximately 40 per cent of the total number of transactions) and 20,894 Sub-Post Office (60 per cent). The Crown Offices are staffed by Post Office employees but the Sub-Post Offices are managed by Sub-Postmasters on an agency basis, usually in conjunction with a small shop.

12.2 The Post Office is reimbursed for the counter services provided for Government Departments (representing about half of total counter transactions) through the Agency Services Agreement. This agreement provides for the share of counter costs, based on measured average counter usage per transaction, to be paid on a cost-plus basis with a margin over cost of 4 per cent. The agreement is currently in the process of re-negotiation, and it is intended the new agreement will move away from the cost plus basis of the present agreement thus providing greater incentive to the Post Office to improve counter efficiency.

13 Future Prospects

i Short Term

13.1 As the basic postal infrastructure is in the medium/long term effectively fixed, the Post Office is vulnerable to a decline in the volume of postal traffic with the resulting higher unit costs and the risk of a progressive cycle of downward volume and upward costs and prices.

13.2 Postal volume is susceptible in the short term to a number of factors, some external to the business such as national economic activity which is reflected in the relationship between Gross Domestic Product and Postal Volume — a relationship which it is difficult precisely to quantify — and some internally controlled factors including postal tariffs and quality of service, which together form the public perception of value for money of the postal service. The Post Office is committed to ensuring that postal tariffs do not increase in real terms and to achieving its quality of service targets through improvements in efficiency and productivity described earlier. In doing so it has also absorbed a fall in volume of 1 per cent in 1980-81 and an expected further fall of 1.6 per cent in 1981-82.

13.3 Postal volume is forecast to increase slightly up to 1985, against the general downward trend over the last 10 years or so.

ii Longer Term

13.4 The threat to postal volume in the longer term and indeed the challenge to its traditional message carrying role will come from alternative means of message transmission through developments and increasing awareness of information and communications technology. This can already provide the facility for computer-based word processors systems to 'correspond' electronically through the communications network and will shortly provide Prestel-type systems clients with the ability to interact directly with the system to record and store private messages.

13.5 Independent surveys commissioned by the Post Office estimate that this may affect 5 per cent of postal traffic by 1985 but the opportunity exists for expansion in other areas by exploitation of the new technology such that total volume over the decade is not likely to be affected by more than a few percentage points. This relates closely to the experience and forecasts of other countries such as USA where inter-business electronic communication of this nature is more prevalent.

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13.6 The Post Office is anticipating the market demands likely to be generated by the new technology in developing new hybrid systems combining its traditional postal delivery network with fast telecommunications transmissions, particularly:

- a INTELPOST — an international service for transmitting facsimiles of documents between 50 centres in the UK linked currently to USA, Canada and Holland; and
- b Electronic Computer Originated Mail (ECOM) — a complete mailing service for a firm's addressed promotional mail including computer printing, enveloping, and delivery from a post-coded mailing list and text provided in magnetic tape form. A trial is currently underway between two centres in Manchester and London.

13.7 In summary the Post Office faces many new challenges to the way it conducts its basic business and its ability to respond to these will determine its future. This future depends on the interaction between developments in alternative message carrying and on its own ability to create new markets and to react to and combine with the new technology. Provided the Post Office can increase its efficiency, and maintain its tariffs and quality of service at an acceptable level, there is no reason why it should not meet the challenge. On the other hand, failure to contain real tariffs and to increase efficiency could set in train a vicious circle of declining volume and ever increasing tariffs.

NATIONAL GIROBANK

14 Background

14.1 Girobank was established (as the National Giro) in 1968, to provide a convenient and quick money transmission service. Over the last few years it has expanded its activities to provide a full banking service. In 1978 it changed its name to National Girobank, and became subject to prudential supervision by the monetary authorities. Some basic facts and figures demonstrating the growth of its activities are at Annexes B and C.

14.2 The expansion of National Girobank has had three important effects:

- a to help to extend the banking habit among the unbanked — the number of personal customers increased by 14 per cent in 1980/81;
- b to increase business at Post and sub Offices. Two thirds of Girobank counter business is at scale payment sub Post Offices;
- c to provide a small but significant (and growing) element of extra competition for the clearing banks.

14.3 Recent developments include the agreement of entry to the London Clearing Centre and plans for establishing seven regional offices to supplement the service provided to customers from its centralised processing centre in Bootle. Two regional offices have now been opened: in Birmingham and Liverpool.

15 Main Features

15.1 Girobank has

- a nearly 1 million or about 4 per cent of UK current bank accounts;
- b 34 per cent of Nationalised Industry and Public Corporation Receipts;
- c 21 per cent of all local authority rent collections.

16 Monitoring

16.1 Details of the monitoring carried out by Government in respect of the postal business and National Girobank are set out in paras 3.1 to 3.5 above. The Treasury under the Post Office Act 1969 is responsible for the supervision of National Girobank's banking activities, this prudential supervision is carried out by the Bank of England as agents for the Treasury, on a similar basis to the supervision of other deposit taking institutions.

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17 Financial Situation

17.1 The National Girobank target for the years 1979-80 to 1981-82 is to achieve an annual average return of 13 per cent on mean net assets before interest and, in addition, to earn a further £5 million over the three year period. Earlier performance and the latest forecasts for 1981-2 indicate that the target over the three years will be met.

	1979-80	1980-81
Target: 13% on mean net assets allocation of £5m	£ 3.6m £ 1.6m	£4.4m £1.7m
	<hr/>	<hr/>
	£ 5.2m	£6.1m
Achievement	<hr/>	<hr/>
	£11.2m	£7.2m

17.2 The financial target for 1982-3 onwards is currently under review.

17.3 The National Girobank would, but for the special tax on banks' non-interest bearing deposits, have succeeded in 1980/81 in eliminating accumulated past losses left on the balance sheet after financial reconstruction under the Post Office (Banking Services) Act 1976. Total capital was until recently made up of £16.7 million from the National Loans Fund (NLF) and £17 million public dividend capital (PDC). This was increased in the current financial year by £5 million PDC and £2.3 million NLF loan in order that National Girobank could carry out its investment programme after the payment of the £7.3 million special tax referred to above. National Girobank has paid dividends each year on its PDC (level before the latest injection £1.7 million pa) up to 1979/80. Dividends for 1980/81 and 81/82 were waived as part of the measures to offset the effect of the levy.

18 External Financing Limit

18.1 As explained in paras 5.4 and 5.5 above, the Post Office's external financing limit is set for the Corporation as a whole, although within the total, separate allocations are made for Girobank and the postal business. Its current allocation is £12.5 million.

19 Investment Programme

19.1 The main investment requirement is for computers and electronic banking equipment which together represent on average over three-quarters of total investment. The programme cost varies between £5 million and £10 million pa of which leasing of assets forms a significant proportion.

19.2 In addition to its fixed assets, a capital requirement can arise from the need to ensure that its financial capital base is sufficient to meet any prudential supervision requirements of the Bank of England.

20 Future Prospects

20.1 The National Girobank is having to cope with increasing competition from the banking sector and its future position will depend on the extent to which it can match improvements in that sector and exploit its inherent advantages, particularly in its large number of outlets (some 20,000) through the Post and sub Office counter network. However, the nature of the network carries with it potential weaknesses as well as strengths since Girobank has no direct control over its outlets, their productivity, or their costs, and there is no feasible alternative, at least in the short term. As counter costs represent over 50 per cent of total costs, National Girobank has a strong interest in counter efficiency. Moreover, as the Girobank develops a full range of banking services, so it will need more and more to be able to provide on the spot expertise. To some extent the new regional offices will meet this need. Due to the low number of account holders per outlet compared to the banks, scope for automation is probably limited to the Crown Offices and possibly a few larger sub offices at least in the foreseeable future.

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20.2 In common with other banks, Girobank's profitability is also susceptible to changes in interest rates. A variation of $\frac{1}{2}$ per cent in the yield on Girobank investments would increase or reduce investment income in 1981/82 by about £1.5 million. As turnover grows this factor will become more significant.

20.3 In summary, the National Girobank has to date competed successfully with the clearing banks and there is no evidence to suggest that it will do any less well in the future if it can contain its costs.

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ANNEX A

**THE POST OFFICE (POSTAL BUSINESS)
BASIC STATISTICS 1980/81**

Total Turnover	£m	2,125.2
Profit		23.3
By Business Sector		
Letters Inland (including registration)	Income	Profit
1,233.2	16.8	
Parcels	211.0	(5.9)
Letters Overseas	22.2	1.2
Counters	458.8	11.2
Total Letters (Inland)	9,427.8	
Total Parcels (Inland)	162.1	
Overseas Letters	541.6	
Overseas Parcels	10.3	
Counter Services	£m	
Agency Service Income	286.9	
National Girobank	75.3	
Postal Orders	23.4	
Telecommunications	73.2	
Main Counter Customers	%	
DHSS	35	
National Savings	10	
National Girobank	16	
Post Services	20	
Other	19	
Employment		179,795
of which:		
Mails Operations	126,504	
Other	53,291	
Number of Crown Post Offices	1,581	
Number of Sub Post Offices	20,894	

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[Continued]

ANNEX B

NATIONAL GIROBANK — KEY INDICATORS

	1980/81 Accounts
CAPITAL EMPLOYED	£31m
of which, FIXED ASSETS (at replacement cost)	£14.8m
PROFIT (before interest and levy)	£7.2m
FINANCIAL TARGET (13% of mean net assets plus £5m over 3 years to 1981/82)	£6.1m
BUSINESS AND PUBLIC SECTOR ACCOUNTS	32,000
CURRENT PERSONAL ACCOUNTS	973,000 [4% of all current bank accounts]
DEPOSIT ACCOUNTS	70,000
CORPORATE DEPOSITS (cash flow pa)	£21.4bn
AVERAGE DAILY CUSTOMER BALANCES	£474m
ADVANCES/LOANS TO CUSTOMERS	£35m
RENT COLLECTIONS PER ANNUM	46 million
EMPLOYEES	5,100

ANNEX C

NATIONAL GIROBANK GROWTH

<i>Transactions</i>		<i>Customer Balances (average)</i>	
year ended	millions	year ended	£m
March		March	
1975	163	1975	116
1976	195	1976	142
1977	228	1977	182
1978	242	1978	230
1979	260	1979	322
1980	270	1980	388
1981	279	1981	474
<i>Corporate Deposits</i>		<i>Rent Collections</i>	
annual rate		annual rate	
March	£m	March	m payments
1975	3,500	1975	18
1976	5,200	1976	27
1977	8,000	1977	31
1978	10,400	1978	36
1979	13,700	1979	39
1980	18,400	1980	43
1981	21,400	1981	46
<i>Accounts</i>		<i>Profit</i>	
March	000s	year end March	£m
1975	490	1974/75	0.1
1976	520	1975/76	0.8
1977	560	1976/77	2.1
1978	580	1977/78	2.8
1979	670	1978/79	4.6
1980	853	1979/80	9.5
1981	973	1980/81	5.5

(before provision
for the levy of
£7.3m)

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[Continued]

Examination of witnesses

MR KENNETH BAKER, a Member of the House, Minister for Industry and Information Technology, examined, MR A J MANTLE, Assistant Secretary and MR M A R LUNN, Principal, Posts and Telecommunications Division, Department of Industry, called in and examined.

Chairman

[24. May I welcome you to this public sitting of the Industry and Trade Select Committee, Mr Kenneth Baker, the Minister for Industry and Information Technology, and I observe that you are accompanied by Mr Mantle, Assistant Secretary, and Mr Lunn, Principal, Posts and Telecommunications Division. Mr Baker, over recent months the Committee has conducted a number of inquiries into public bodies associated with the Department of Industry. The Post Office is now reconstituted following its separation from British Telecom and the purpose of this short inquiry is to ascertain its present financial position and its future prospects. Last week we heard evidence from the Chairman of the Post Office. We now look forward to hearing from you as their sponsoring Minister. You have, no doubt, read what the Chairman, Mr Dearing, and his colleagues said to us last week in answer to our questions. Before we come to the specific points of detail we want to ask you this morning, have you anything to say of a general nature by way of comment on the evidence given by Mr Dearing?

(*Mr Baker.*) Sir Donald, first could I thank the Select Committee most warmly for conducting this inquiry into the Post Office. It was always envisaged when the departmental select committees were set up that they should take an active and involved interest in the nationalised industries in their respective areas, particularly as the overall select committee on which some members of this committee sat was discontinued. Therefore, I, as a departmental Minister, warmly welcome this inquiry into this particular nationalised industry. I would first, if I may, like to put right what seemed to be a slight misunderstanding at the previous session of the Government's views on new technology in the Post Office. Our memorandum was not intended to convey that we do not favour investing in high technology areas, but was merely a statement of our view that with the current complexion of our business, it seems likely that bulk of Post Office expenditure will continue to be in the system related areas of buildings and vehicles. It is, of course, for the Post Office itself to decide what re-

sources it proposes to put into new technology, but the Government would, of course, be glad to see the Board investing in new methods if these can do the job more efficiently and provide a better service for the customer. Indeed, I warmly welcome the initiatives that have been taken by the Post Office in the last two years or so, particularly by Mr Dearing, in this area and in fact I launched about two months ago the electronic mail service. He acted very quickly there and has got that mail service operating, in fact before British Telecom. By way of more general comment on last week's proceedings, I assume that the central issues covered with the Chairman—investment, the financial target and external financing limits—will be taken in our discussions later this morning. I would just like to say that I think the Chairman set out very fairly the inevitable differences of emphasis which can arise between a business and the Government which is responsible for controlling the allocation of funds over a wide area. Perhaps I could add that I do believe that Mr Dearing has done a very great deal to make the Post Office more efficient and more responsive to the needs of the customer. I think he is an outstanding chairman of a nationalised industry. There is more to be done, I believe, but the whole outlook of the Corporation is changing and it is becoming much more aware of the need to act commercially and to improve efficiency. I believe this reflects credit on all concerned, and I think it does reinforce the wisdom of our decision to split the Post Office from British Telecom.

[25. I am sure in your praise for the Chairman of the Post Office in general and the work they are doing, you on your part are doing all you can to encourage new technology in the Post Office?

(*Mr Baker.*) Yes, indeed, most certainly.

[26. In your memorandum, paragraph 4.1 you point out, and I quote, that 'the postal business capital is small in comparison with its annual turnover'. Is this the reason that the prescribed rate of return of 2 per cent is calculated on turnover rather than on capital?

(*Mr Baker.*) I think the reason why the 2

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[Continued]

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per cent target was determined some time ago by a previous government, and we are quite happy with it, is a technical one, that when the last financial target was set, the Post Office was in the process of revaluing its assets, about 85 per cent of which at current cost valuation were in the form of land and buildings. The revaluation has now been completed and, in considering the form of the new target, the possibility of an asset-based target will be examined, and indeed there is a working group that will be looking at this, together with the Treasury, ourselves and the Post Office. If one moved to an asset-based business as a target, because so much of the assets are in property, that valuation may vary from time to time and it may not be as effective as a 2 per cent on turnover. I think the advantage of the 2 per cent on turnover is that it is a very clear, simple target which, quite apart from the managers and Ministers, other people could understand as well.

Mr Mikardo

127. If it is as good as that, why do we not apply it to all the other public corporations? Is there any other corporation whose target is measured as a return on turnover rather than on other factors?

(Mr Baker.) I do not think so.

128. Is it not a bit strange? You say this was done by the previous government, I am not interested in which government it was, that this should have been done even allowing for difficulties in valuing of assets? It is not a fact that although the Treasury produces a White Paper every five or six years about financial criteria, and changes its mind every five or six years, and sometimes is not very good about it, the one thing they have never considered as a financial criterion is return on turnover?

(Mr Baker.) Yes.

129. Is it not then very important that you should pursue this project you have of getting back to an asset-based target as quickly as possible?

(Mr Baker.) I can assure you that we are examining that and my officials with the Post Office and the Treasury are examining it. I think what must have been behind the minds of those who set the target was that this is not a capital intensive industry in the sense of British Telecom and much of its capital is historic capital based buildings acquired in the last century and in some cases earlier. The amount of capital invest-

ment, until the electronic revolution, was of a relatively modest sort. It was trolleys for postmen and things of that sort and some mechanical handling. Therefore, perhaps it was more appropriate to relate it to the sort of concept of return-related to turnover, rather like a retail operation. I think that might have been behind their minds.

130. Would it not have made more sense to have followed the principle of the 1967 White Paper and based the test on the criterion of return on new investment measures by DCF techniques, or whatever, plus a pricing policy?

(Mr Baker.) Yes, I think that is a possibility and we will certainly take it into consideration in our review.

131. With the difficulty you have in knowing the value of the assets now, and I appreciate that, can you take a flyer at what that 2 per cent turnover represents in terms of return on total capital value?

(Mr Baker.) With lots of caveats, lots of caution and all the rest of it, very approximately, not an equals sign but one of those that bumps up in the middle, on current cost somewhere round about 3 per cent on assets, and perhaps on historic cost basis about 8 per cent.

Chairman

132. Before I ask my other colleagues to come in, could I clarify one or two points? Since the Post Office provides a service to the community, why is it required to make a return to the Exchequer other than by way of interest on loans?

(Mr Baker.) I do not think, Sir Donald, one should look at the Post Office as a social service. I would accept that there are elements of its service that it does provide, particularly in the rural and more remote areas, which do have an element of social service about them but we very much take the view, and I think successive governments have taken the view, that the Post Office can and should be run as a profitable business enterprise. Since, however, it is a public sector body and it is only subject to competition in a relatively small range of its activities, it is not, therefore, entirely subject to the discipline of the market and therefore there have to be some sorts of disciplines imposed upon it.

133. Can you tell us why the Post Office is subject to external financing limits?

(Mr Baker.) Yes, I will try to do so, Sir

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[Continued]

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Donald. The reason why the Government, the Department and the Treasury together impose external financial limits upon nationalised industries I think is three-fold. First, it is to impose some sort of financial discipline upon the particular nationalised industry in question, in this case the Post Office. In fact, it is the only control that the Government really has upon nationalised industries because I cannot determine the tariff levels. The Secretary of State, has no powers to instruct the Post Office either to increase or decrease its tariff proposals. I have no powers to tell them to invest in certain things or not tell them to invest in certain things. In effect the only measure of control that a Minister sponsoring a nationalised industry has, and this is true for them all really, is the agreement on the external financing limit. So there is a financial discipline. The second reason is that the Treasury has to reconcile all the various conflicting demands from the various nationalised industries and also its own demands through the gilt edged market. Therefore, it has to determine priorities. It has, in fact, to form a queue for those who want to borrow and so this is the way that it determines its priorities, by agreeing a range of EFL's for the range of nationalised industries. The third reason why Governments impose an EFL or agree to an EFL with nationalised industries is that it does throw back upon that nationalised industry decisions for that management to take itself. It is saying, in effect, there is so much you can borrow in the course of this year, and as a result of that you will have to determine your tariff policy, your pay policy, your investment programme and things of that sort, and see whether, in fact, you can husband your resources more effectively by greater productivity and matters of that sort. So that is in rather general terms the doctrine behind EFL's.

134. I am not quite clear about this, and whether you heard the Chancellor of the Exchequer, as I heard him yesterday, saying something about the external financing limits of your other half of your existence, British Telecom?

(*Mr Baker.*) Yes.

135. Have those not been raised and what is the difference between Telecom and the Post Office.

(*Mr Baker.*) I did indeed hear the Chancellor yesterday and I was very pleased that he made the announcement in the Budget

statement on Buzby Bonds. I think that is a break-through in the financing of the nationalised industry. It was made possible by the passage of the British Telecommunications Act last year because it gave British Telecom the power to go to the market. I think in the terms of financing of nationalised industries it is an historic statement and the Chancellor said we will be presenting the prospectus to allow British Telecom to go to the market to raise money, between £100 million and £150 million later this year, to bring in private capital to the investment programme. In addition to that, British Telecom does have an EFL. In fact we increased the EFL on British Telecom last year because of the enormous demands that it does make on capital investment. It is the biggest capital investor in the country. It is investing about £6 million a day. We increased that. It was the first call on the contingency reserve in this current financial year that is ending in a few weeks time. The Buzby Bond will have an element of additionality in that a proportion of it will be additional to the EFL which has been set for this next financial year.

136. Why is not the Post Office allowed access to its accumulated reserves to finance its own investment projects?

(*Mr Baker.*) The reserves, Sir Donald, I am advised amount to about £260 million or thereabouts and they are in the form, some of property and some of cash. They have, as is common with nationalised industries, a part that is deposited with the Treasury and therefore it is part of the national accounts. If the Post Office were to call back or ask for a portion to be called back, they would leave a hole in the general amount the Treasury has and the Treasury would, therefore, have to fill that hole by raising more money or increasing the PSBR.

Mr Mikardo

137. Those reserves are money that the Post Office has earned by its activities. What would you say if a Government, of which you were not a member, said to a large company in the private sector, "We are going to prevent you from using the money you have earned in a way in which your commercial judgment would lead you to want to use that money. We are going to prevent you from using the money you have earned to up-date your equipment and

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[Continued]

[Mr Mikardo Contd.]

improve your productivity and your performance"? What would you say if a government, of which you were a member, behaved in that way to a company in the private sector? I know the answer but I would like you to give it.

(*Mr Baker.*) I cannot conceive of a Conservative Government of which I am not a member, but that apart, I would only say that there is considerable distinction here between the private and the public sectors. The Treasury is, after all, acting as a representative of the shareholders, in this case, the tax-payer, and it has received that money. Now, the way in which the Treasury accounts for that money is that if the Post Office were to call upon it, it would leave a gap which has to be filled, and that gap has to be filled at the expense of somebody else. So it comes down again to the assessment of priorities which the Treasury and ourselves have to make for the nationalised industries each year, how much will be allocated to BT, how much to the Post Office, how much to British Steel, gas and all the rest.

Mr Hill

138. I have a small question on a remark that the Minister made regarding the capital assets. He said they were mainly in a property portfolio and that, of course, this would vary; the capital assets would vary. I would assume that they would vary only by increasing in value. It is well-known the Post Office has a number of very good property sites in the high streets of the United Kingdom. Is there any plan or rationale on this property portfolio because, for example, in my own constituency, Southampton, they have a very large industrial unit now in the docks area but they are still occupying a very large site in the high street of Southampton. Could there not be some examination of the property portfolio so that some of these capital assets can at least be reduced into cash terms?

(*Mr Baker.*) Yes, I think if you had asked Mr Dearing about that last week he would have said that he has given a great deal of personal attention to seeing how the considerable property portfolio of the Post Office could be better managed. Broadly, Mr Hill, I would agree with you, that property values tend to rise and therefore the assets would tend to increase, but some of the buildings, the older ones, may well be in parts of inner cities where property values are stabilising or falling and some, of course, of the property assets of the Post

Office are very old buildings and need considerable refurbishing.

Mr Stevens

139. When you said, Minister, that the shareholders were the taxpayers, that was a term of art, was it not? The shareholder, in fact, is the Secretary of State. Is that not so?

(*Mr Baker.*) I was referring to the fact that the Corporation is a wholly owned nationalised industry. I do not think the Secretary of State is a shareholder as such because there is no corporate structure. I was referring generically, i.e. the Treasury is looking on itself as the representative of the nation, the financial adviser to the nation, on this particular part of the nation's assets.

Mr Crowther

140. This seems to be implying that the Treasury is really better qualified perhaps to decide what is to happen to the accumulated reserves than is the Secretary of State. Is that what you are saying, bearing in mind the Secretary of State is responsible for the Post Office but the Treasury apparently is able to determine what happens to the money which it has earned in the past?

(*Mr Baker.*) Yes; I think the question of the reserves is an internal accounting matter in that if, in fact, one wants to draw upon the reserves, if the Post Office wants to draw on the reserves, then the consequence of that is that the Treasury has to find it from elsewhere, therefore drawing on the reserves could be a method that the Post Office could use, but it would have to be taken into account in the general discussion with the Treasury on the overall level of the EFL.

Mr Stevens

141. I do not think this is just a barrack room lawyer's argument because one finds in other nationalised industries that those working in the industries sometimes claim that they are the owners and that the Department, whichever it may be, is an unwelcome intruder. I think it would be helpful if it could be made clear who owns these public bodies because, after all, if you are the owner of the Post Office, or I am the owner of the Post Office, we have a right and a duty to manage the assets of the Corporation in the most effective way. It is a right and a duty which is growingly objected to by some people who work in state industries. I think it is leading to friction which ought not to be necessary.

(*Mr Baker.*) The nationalised industries are not Companies Act companies, so to

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[Mr Stevens *Contd.*]

that extent they are not shareholders in that strict sense of the word, but they are national assets and to that extent they are not owned by any particular group of people. They are owned by the nation. They are not owned by the workers who work within them. Of course, if one privatises parts of the nationalised industry, one can give the actual workers who work in it a chance to acquire shares.

(*Mr Maxwell-Hyslop.*) Before we leave this matter, Mr Baker, what do you see as the purpose of the Post Office's reserves?

(*Mr Mikardo.*) It is to give the Chancellor a bit of fat to play with for other purposes.

Chairman

142. Could you supplement that? What use are reserves if you cannot draw on them?

(*Mr Baker.*) The point, Sir Donald, is that the Post Office could draw upon these reserves if it wanted to but that would have to be taken into consideration with its overall financial requirement and in the determination of its EFL. It is not, as it were, an extra bit of money in the terms of national accounting. It is part and parcel of the amount available, the total amount of money which is available, for investment in the nationalised industries.

Mr Maxwell-Hyslop

143. Is it the case that the Treasury pay the same rate of interest on the Post Office's reserves that the Post Office pays when it borrows money? Would you expect a business to leave £200 million plus on deposit for nought while it proceeds to pay interest borrowing money elsewhere? That does not sound a very business-like way of running your affairs, does it?

(*Mr Baker.*) If I may, I would like either to submit an answer in writing to Mr Maxwell-Hyslop on the question of what the arrangements the Treasury has are with the Post Office and the amounts and rates of interest paid upon them, or perhaps, if you are interested, you could ask for a submission from the Treasury upon these matters.

144. I think the question is fair to ask of the sponsoring Minister. What does he see as the purpose of the Post Office's reserves?

(*Mr Baker.*) I think that they are a result of an historical process in that these are surpluses and amounts that have been, as it were, deposited with the Treasury in the past. I understand the feelings of the members of the Committee and I can understand

that this is not how things are conducted in the private sector, and the point I would like to make again, if I may, is that this money can be used by the Post Office, but it would have to be used in the context of its overall requirements over the next two or three years.

145. If it is expected to run as a business, I am not saying it should but if it is expected to run as a business, is it a business-like way of doing things to leave money, hundreds of millions of pounds, on deposit at zero or at any rate a lesser rate of interest than you are borrowing money elsewhere? Is that a business-like way of doing things?

(*Mr Baker.*) If that is what is happening, then I first have to find out exactly what the rates of interest are upon the reserve between the Treasury and the Post Office. In a way these are surpluses, as it were, which could have been paid back to the Treasury or the Treasury could have called upon them and said, "We will pull them back from you". Do you see the point?

146. What about tax?

(*Mr Baker.*) It is not quite like that. As I was trying to explain earlier, the whole principle of EFL is to determine, together with the nationalised industry concerned and the demands upon the Exchequer, if you like, what the priorities ought to be.

Mr Stevens

147. If the Post Office is being run as a profitable industry or business, to whom does it pay its dividends?

(*Mr Baker.*) It does not have dividends because it is not a Companies Act company in that regard, and therefore if you like it is the surplus over its requirements in a particular year which is taken back by the Treasury because this is their way of saying, "We are acting on behalf of the taxpayers and some of this should come back to us".

Mr Crowther

148. But you are expecting the Post Office to operate commercially, are you not by the very fact you are imposing certain requirements as to the return, as we have already seen which is on its turnover rather than its assets; nevertheless, there is a requirement to produce a return. Is it not fair to summarise the last few minutes of this discussion by saying that in certain significant respects they are not allowed to operate commercially; i.e. they are not

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[Continued]

[Mr Crowther *Contd.*]

allowed to make their own commercial judgments about the use of their own reserves?

(*Mr Baker.*) Yes, but on the question of the reserves and the degree of freedom that the Post Office has, this must be tied in with the general amount of money that the Post Office wants for its investment programme and that has to be tied into the overall calls upon the Exchequer in general. This is true for all nationalised industries and, yes, we are expecting the Post Office to operate commercially and in a commercial environment, but, of course, because it has a virtual monopoly, except for certain fringe activities, that puts it in a special position. In any event, successive governments have always found it necessary to impose some sort of constraint upon the investment plans and requirements of the nationalised industries because, in effect, when nationalised industries have to borrow to get money they are, in effect, going into the gilt edged market and there are various conflicting demands upon the amount of money which the Government considers should be available for Post Office investment or British Leyland investment or other investment by nationalised industries. So, one does work within that overall framework of the allocation of resources.

(Chairman.) We will go on to the question of financing and investment, which will incorporate further questions.

Mr Mikardo

149. I have a very important supplementary on this actual answer we have just had. If one accepts the answer which is given, Minister, ought we not then to abandon the fiction that a public corporation is in a position to exercise its own commercial and technical judgment? Ought we not to accept directly arising from your answer that its performance is determined, not by its own judgment, but to a large extent by the judgment of the Government and that in so far as its performance falls short of the optimum because of restrictions placed on it in the way you have just described, it should be the Government that bears responsibility for that short-fall and not the corporation? Are we not trying to eat our cake and have it when, on the one hand we hamstring decisions of the corporation, and on the other hand say they are free to act commercially?

(*Mr Baker.*) That is an important question, and let me answer it in this way: I do

not agree with the general premise that because the government of the day imposes upon a nationalised industry an EFL, which by the way the nationalised industry may not meet, and if it does not meet it there are very few sanctions that the government has, as you will know from your experience of nationalised industries, then that hamstrings nationalised industries. It most certainly does not hamstring nationalised industries, and I would like to say that the approach that I have to both the nationalised industries for which I am responsible, Posts and telecommunications, is to let them get on with their business and I am not interfering daily, weekly or monthly with what they are doing, but it is reasonable, as I, if you like, as one of the representatives of the taxpayers or the shareholders, working with the Treasury, do say, "Right, we are prepared to allow you so much money for your reinvestment and your investment programme." I would just like to point out that the figures that we are allowing the Post Office at the moment on investment are a quantum jump over what they were in the mid-seventies. The present levels of investment now are three times in cash terms and two times in real terms what they were in the mid-seventies. We have increased significantly the levels of investment and the consequent levels of EFL. Really, one is not saying that, to return to the analogy of the private sector, and after all a company in the private sector might say, "I want to invest £5 million or £10 million in this project", then at some stage have to go along to the bank manager or the shareholders and say, "I want this £5 million or £10 million". It may have to trim that £5 million or £10 million to £3 million or £7 million. It is not a process which is very dissimilar from that.

150. But not if it wishes to spend its own reserves?

(*Mr Baker.*) Yes, but the reserves are an historic surplus and the reserves, as I pointed out, could be used by the Post Office but they would have to be taken into account in the general allocation of money for the Post Office generally.

151. What other nationalised industries have accumulated reserves similarly controlled by the Treasury?

(*Mr Baker.*) I do not think many have reserves, is the answer, but I think that I would be prepared to give a note on this.

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[Continued]

Mr Cockeram

152. Can we turn from the use of reserves, where some of us think there is an anomaly, to the external financing limit markers where there is a short-fall in the year that is carried forward but where there is a surplus it falls to the Exchequer. What is the logic of that?

(*Mr Baker.*) I think the logic of that, Mr Cockeram, is that the Treasury in effect says that it expects the nationalised industries, where there is a short-fall as there has been for two years in the case of the Post Office, to make it up when they have a good year. I think one can see the logic in that. Then it comes to the question of the surplus. On that I think that the attitude the Treasury takes is, "Right, the business has done well; it has met the short-fall obligations over the last two years and there is a surplus. That surplus can be used in a variety of ways. It could be used, for example, to restrain tariff increases; it could be used to increase the level of investment, or it could be returned to the owners, i.e. the generality of the taxpayers, the Exchequer."

Mr Maxwell-Hyslop

153. It could be put into the reserves?

(*Mr Baker.*) If it is returned in that case, Mr Maxwell-Hyslop, it would not go to reserves. I think in the past if it had been returned in this way it would have been dealt with as now rather than labelled reserves. The surpluses would have been taken as it were and the reserves arise, of course, from the low level of capital investment in the past in the Post Office. That is the doctrine that the Treasury works to in this area.

Mr Cockeram

154. They have displayed in the past an inflexible attitude, have they not, in the sense that you postulate options. The point I am putting to you is that the Post Office has not in the past had any options. The surplus has had to go into the Treasury.

(*Mr Baker.*) Yes, I would not disagree with that, Mr Cockeram. I think the point is that if there was to be a relaxation of this Treasury rule and practice, I think you would have to apply it to the public sector as a whole and not just to the Post Office, and the public expenditure plans are, of course, made in advance by the Government on fixed EFL's. So the industries know where they are. To do as you suggest would effectively give industries the right to change their EFL's unilaterally and hence

render invalid the basis on which public expenditure forecasts are made.

155. We are only talking about the excess.

(*Mr Baker.*) Yes, but it would be the same effect; in other words, if the Post Office were to carry over someone would have to spend less because it is a jigsaw in which the pieces fit together, but I appreciate the concern of the Committee on this. It may be interesting, as this is really into the whole doctrine of the Treasury's control of public expenditure by nationalised industries in general, that you may consider it worthwhile inviting a memorandum from the Treasury on this particular matter, or indeed take evidence from the Treasury on this question.

Mr Mikardo

156. Perhaps you would prefer us to put this to the Treasury rather than to you, but does not the system provide a built-in incentive to a public corporation, to the Post Office in this case, not to make surpluses? If you were the chairman of the Corporation would you behave in this way? I certainly would. If I were told four months before the end of the financial year by my finance chaps, "We are going to make a surplus this year", I would say, "Look, go out and buy this year the fleet of new vehicles we were going to buy next year". Is that not almost inevitable in this rather silly system?

(*Mr Baker.*) I think that that is a possible consequence for certain people to argue. Could I say that on the question of the surpluses, because as Mr Dearing said last week when he came here, the profit they are going to make this year is going to exceed the forecast, which is excellent, and it is a great tribute to his management and that of his Board, a very considerable tribute. We review constantly the investment programme of the Post Office and we will be prepared to examine the representations that are made to him and discuss with the Treasury to see whether, in fact, there can be more flexibility. I was really explaining to you in reply to Mr Cockeram, what the doctrine is, as it were, that is general for nationalised industries from the Treasury.

Mr Cockeram

157. That leads on to the next question, Minister, which is covered by the Post Office memorandum to us which sets out their investment plans over the next five

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years. What are their chances of being able to find the money to finance these plans under existing constraints, and if they cannot find the whole amount, who decides where the cuts come?

(*Mr Baker.*) Ultimately it is the management of the Post Office that decides what its investment programme is and what it should spend it on. It would be quite wrong for me to say anything on this matter.

158. Would you not have to approve it?

(*Mr Baker.*) Oh, yes, the overall level is discussed by officials but whether it should be spent on vehicles or on property or on letter mechanisation or on electrical mail is essentially a matter for the Post Office. I would not want, as a Minister, my department to tell them how they should be investing their money.

159. Are you saying then that the Post Office Board decide their priorities if they have not got sufficient funds to meet all their investment requirements and that it is not a function of your department to exercise any control in that respect?

(*Mr Baker.*) It is essentially for the Post Office Board to determine its own priorities in investment.

160. How do you assess the cost-effectiveness of these investments?

(*Mr Baker.*) We would expect the Post Office investment to satisfy normal commercial criteria as regards the cost-effectiveness of it and I think it is in this context necessary to distinguish between investment on new projects and investment on what I would call the system of the basic network because on the new projects which are discrete individual projects it is possible to isolate them and to do a proper discounted cash flow appraisal. That would be done by them and we would oversee it and be satisfied ourselves on what the outcome is. On the systems-related or network-related investment, it is much more difficult to disentangle because you have a great network which exists on the ground historically based largely deriving from the nineteenth century. It is in that particular area quite difficult to work out the contributions that an individual sorting office has within that network. So that is more difficult to assess.

161. Last week Mr Dearing said that the full benefits gained from mechanisation of the postal service and the sorting offices could not be obtained until the whole

system had been mechanised, or at least the major offices. That being so, there is a lot of capital at the moment that has been invested over recent years which is not yet earning its return. Would it not be sensible that the mechanisation scheme be pressed ahead with all speed, rather than subject to constraints?

(*Mr Baker.*) Yes, I have considerable sympathy with that and this is one of the reasons why we have increased the EFL for the Post Office. I would say by quite dramatic amounts. If I could just remind the Committee of the amounts that we are talking about—

162. It is not the absolute amount; it is the principle of completion of the project. Anything which holds back a project which is not earning a return cannot be good policy, can it?

(*Mr Baker.*) It is an argument, of course, which the Chairman and Boards of all nationalised industries make to all their sponsoring Ministers all the time. We are always told that a particular piece of investment is absolutely essential, and that if it is not undertaken the thing will fall apart. We have to make an assessment in the rationale of resources which is done through the EFL. All I am saying is that in the last two years we have increased the investment funds to the Post Office by really dramatic amounts. They are now three times greater in cash terms and twice greater in real terms than in the seventies.

163. Yes, but if the Post Office wants to complete this project why can they not have something either equivalent to Buzby Bonds and go to the market to get the money or, alternatively, why can they not do what the private sector would do when subject to financial constraints, and that is lease the equipment in question, meeting the leasing costs from revenue? We were told by Mr Dearing last week that the full benefits of this project will not be yielded until the entire process has been completed and to stop with sixty or seventy or eighty per cent of the investment made and not the benefits does not seem to make sense when leasing is an option.

(*Mr Baker.*) The other sources that are available for the Post Office to invest more in letter mechanisation are by a higher EFL (i.e. the Government agreeing to a higher EFL and I have explained to you the reasons that bear upon that particular decision); secondly, higher productivity and

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improvements within the Post Office itself. One must not forget there is enormous scope for improvement in all the nationalised industries. I would like to pay tribute to the enormous improvement yet again. It has been made in the last two or three years, in productivity improvements in the Post Office in this last year of some 3 million hours of overtime in Inner London which have been taken out. For the UK, as a whole in 1980-81 6 million hours of overtime were taken out. In 1981-82 13 million hours of overtime were taken out and for the next year, 1982-83, 9 million hours of overtime will be taken out. This does represent an enormous improvement in efficiency of the Post Office and, of course, is one of the main contributory factors to the increased profit of Mr Dearing.

164. You have not answered my question on investment.

(*Mr Baker.*) I said there were three ways that, in fact, it could be done, an increase in EFL, an improvement in productivity and, thirdly, I suppose you could say in fact higher tariffs. The fourth way is to lease which you mentioned and the Treasury has rules on leasing. I am quite sure they would be prepared to set them out. They are openly known but in effect leasing has to be capitalised so that it comes within the control of EFL. The fifth method that you mentioned is should there be a Buzby Bond for the Post Office? We do not turn our minds away from that. As I said earlier, the break-through that has been made by the Buzby Bond is very significant indeed. It is a new departure entirely in financing for nationalised industries in the way we are proposing. It is a sort of participating preference share which is going to be related to the performance of BT and the profitability of the Post Office. I think we ought to get that off the ground to see the public reaction to it as a borrowing instrument and to see whether it is applicable to other nationalised industries. It would, of course, only be applicable to profitable nationalised industries because the coupon on the Buzby Bond will be related to the profit of British Telecom.

Mr Mikardo

165. All that is very legitimate, Minister, and it will take time to come through. With respect, I think you have missed the point of Mr Cockeram's original question and you revealed that when you said that all nationalised industries say their matters are ur-

gent. The fact of the matter is that a return of a coal-cutting machine in the Yorkshire coal fields is not dependent on whether or not you have a coal-cutting machine in the Scottish coal fields. The problem here, as Mr Cockeram put it, is that you have spent money on equipment in Norwich which is not yielding a full return because you have not got the same equipment in Bristol because they have not had the money to put it in to Bristol, or vice versa. I am oversimplifying it. So you have things eating their heads off until the other things are provided. Ought not that to be the subject of an immediate removal of constraints on investment sufficient to make up the whole network?

(*Mr Baker.*) We have agreed increased EFL's and investment programmes for the Post Office. If, in the agreement of that investment programme, Mr Dearing and his colleagues believe that it is important to put £134 million of investment, and it was no small sum we were talking about, or the greater balance of that in the course of the next year into letter mechanisation, that would be up to him to do.

166. Why is it that the Government appears to want the Post Office to give a less good service than it would like to and is competent to give?

(*Mr Baker.*) I think that is unfair. That is not the intention of the Government, nor of previous governments, and you should really be casting your criticism, if I may suggest, Mr Mikardo, to the very poor levels of investment in the mid-seventies.

167. I am not making a party point.

(*Mr Baker.*) Nor am I; I am saying historically this is a corporation that has not invested heavily. We are recognising the investment demands of this corporation now in a way they have not been recognised before because we want to improve the service and want to get it better.

Chairman

168. I think you have got the message from the questions directed at you over the last few minutes that all members of the Committee want to see this mechanisation programme speeded up and we want to help you to get it speeded up. Will you let us help?

(*Mr Baker.*) I welcome any allies, particularly one such as this Committee.

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Mr Crowther

169. I gathered from a previous answer that you are saying that the Post Office would have more cash available for investment if it was able to improve its surplus as a result of various things you listed, including productivity and other items. I was under the impression from previous answers that if they did increase their surplus as a result of various business techniques, the extra money would be snaffled by the Treasury, so how would they then be able to have more for investment?

(*Mr Baker.*) I think that it is for discussion the extent to which the Treasury will take the surplus between us and the Treasury and, of course, the Post Office.

Mr Maxwell-Hyslop

170. When changes were made in the arrangements for paying social security at the Post Office in the last 18 months, the Minister stated that alternative arrangements would be made to supplement the agency income of sub-post masters to compensate for what had been lost by reducing the frequency of the payments of social security benefits in sub-post offices. Can you tell us specifically what has been done in this field?

(*Mr Baker.*) What we have said generally is that we will monitor together with the Post Office on a regular basis any damage, any loss of income, that might arise over the different arrangements for the payment of DHSS benefits and the Government has said that we have ear-marked a fund of £2 million. We have discussions with the Post Office on the actual monitoring of this.

(*Mr Mantle.*) If I could add, Chairman, the first thing that happened, of course, is, as I am sure Mr Maxwell-Hyslop is aware, that the BT Act has provided scope for the Post Office to take on a wider range of business across its counters in that it is now able to do more work for public bodies other than Government than it was before. The second point that the Minister was making is that this £2 million fund was seen by Ministers as a safety net, as it were. If there were reasons in particular local situations where the overall gross increase in benefit for the network as a whole through new counter business was not realised, and particular sub-post masters might be seen to be adversely affected, then the Government would consider, through the Post Office allowing part of this £2 million for special cases of this kind.

171. In what time span, after what sort of drop of income, would this fund be released?

(*Mr Baker.*) The new arrangements come in in the summer of this year and we will be monitoring them very closely from then on because one does not want, and I take entirely the point behind your question, a long gap. If there is evidence in the first two or three months, let us say, then we must act quickly.

172. Are you the Minister responsible for co-ordinating work put out to agencies in the Post Office by other Government departments or are other Ministers? If I can just quote a specific example, who is responsible for deciding the number of sub-post offices which is currently limited to 3,000, I understand, in England and Wales where the public can go and buy motor vehicle licences? Is that decision taken by you as the sponsoring Minister or by the Secretary of State for Transport?

(*Mr Baker.*) It is taken by the latter.

173. How do you as the sponsoring Minister co-ordinate, or if you do not, who does, the individual acts by departmental Ministers which affect, (a) the service to the public through the Post Office, and (b) the income to sub-post masters? If it is not you as a Minister, then who is it?

(*Mr Baker.*) It is really left to the Post Office to approach their possible clients and customers, in this case Government departments, and persuade them to use their services. They therefore approach Transport and the Secretary of State for the Environment and, of course, individual local authorities as regards rents and things of this sort, and the DHSS. That is how it is done. When there was the change-over as regards the DHSS payments, taking place this year, we were very concerned at the consequences of that on the sub-post masters' network and therefore we did undertake a very urgent study and review in the Department to see what extra activities could be found from the private sector, and indeed from the public sector, on things like fuel stamps which could be handled by the Post Office.

Mr Stevens

174. In what circumstances and on what terms do you or the Chairman of the Post Office decide to close a sub-post office?

(*Mr Baker.*) I think that is really a matter for the management of the Post Office to

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decide. Those matters certainly have not come to me since I have been responsible for the Post Office. It is really a matter for the management of the Post Office in its network and relationships it has with its sub-post masters.

175. I detect a reluctance to close sub-post offices which are no longer profitable, partly because of the pressure of the organisation of the sub-post masters and the fact a fairly heavy level of compensation is currently paid. Such an arrangement might not operate in the public interest.

(*Mr Baker.*) I think the public interest can be very wide here, Mr Stevens, and some of the sub-post offices are indeed very modest. We had a personal friend who happens to be a sub-post mistress in a very remote district of Wales staying with us a fortnight ago. She calls her customers clients. I have not looked at the finances of that, nor would I want to do so. It provides a little focal point in the community and therefore that is the public interest. The farmers come in and although very few people use it it is very important in making a community in our society hang together.

Mr Maxwell-Hyslop

176. When sub-post offices close by the slightly less direct route of a fall in income, as a result of the new social security arrangements, and no-one can be found who is willing to take them on at that reduced income, is it for the Post Office to come to you and say, "Will you release part of that £2 million so that this unit is made viable", or do you say to the Post Office, "I do not wish communities to be left without the services of a sub-post office because of the alterations that have been made in paying social security benefit, so will you inform me, please, when this situation arises so that I can release part of the fund of £2 million apparently ear-marked for this purpose?"

(*Mr Baker.*) The £2 million was initiated as a Government and not a Post Office initiative. As I said earlier, we are setting up the arrangements and guidelines together with the Post Office and the sub-post masters and the idea would to some extent be anticipatory and not to come along two years after the event and say, "That will have to be closed; bad luck". The guidelines will reflect that.

177. Will the guidelines be known to Members of Parliament? Will they be

placed in the Library or how will Members know what they are?

(*Mr Baker.*) I can see no reason why they should not be.

178. On whose judgment does it ultimately depend whether a sub-post office is retained or not? As you rightly say, it is more than just the purely postal services that are involved. The benefit accrues to the local community. Is it considered that a head post master in some city is well qualified to judge the social benefits to a village thirty miles away from his post office and the judgement should therefore be his?

(*Mr Baker.*) There is a great tradition in the Post Offices of public service. It was, after all, until thirteen years ago a Government department, in effect. I have always been very impressed with all the staff I have spoken to in the Post Office, I go round and meet them, with the fact that they are very conscious of getting the mail out and the services out to even the remotest places. This is really a matter for the internal discussions between the Post Office and the sub-post masters or the Sub Post Masters Association concerned. I am glad to say there are more people now wanting to be sub-post masters than in the recent past.

Mr Hill

179. Do you not find that a bit curious, Minister, in view of the fact that the Post Office itself does very little to protect its sub-post masters, or indeed the sub-post offices from violent attacks? It does seem to me this is an area of neglect that you could possibly guide Mr Dearing on and that there should be more protection for sub-post masters and better shop fittings, certainly safety factors up to the standards of, say, the high street bank?

(*Mr Baker.*) In fact I have raised this myself with Mr Dearing because I have been very concerned about the attacks on sub-post masters and, for example, the Prime Minister gave awards recently to Post Office staff who had been exceptionally brave in dealing with attacks. It is very important Ministers should be associated with that sort of activity. Coming to the more practical side, we are having discussions with the Post Office to see what can be done to improve the security.

Mr Maxwell-Hyslop

180. We understand that in so far as the Post Office has projections for a fall in the

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number of items mailed into the predictable future, yet you require the Post Office to reduce the real unit costs by 5 per cent in the period 1984-85. It would seem, would it not, that these go in opposite directions and that your unit costs will increase when you reduce the through-put, yet you require a 5 per cent reduction in real unit costs in that year, 1984-85. Do you regard this as realistic?

(*Mr Baker.*) Yes, Mr Maxwell-Hyslop. I think it is an important target. In effect there are three sets of targets for the Post Office. There is the 2 per cent turnover; there is the return on real costs; and there is the performance of delivery for the first and second class posts. I think it is very important to have all those three targets. It keeps the management up to the mark in very simple terms and they are very conscious because they are very responsible managers that they should try to hit these targets. What we are really saying is, "Can you not do things a bit better, in effect, by imposing a real unit cost target? Can you not examine your working processes?" This is a target we think is reasonable because we think productivity should be improved. There is no doubt that the Post Office has accepted that and I would just like to re-emphasise those numbers of overtime hours that have been taken out in the course of the last two years because it is worth repeating that in 1980-81, six million hours were taken out; in 1981-82, thirteen million hours were taken out; and for the next year, nine million hours of overtime will be taken out. That is going to reduce real unit costs.

Mr Cockeram

181. At the same time last year in their accounts the amount of mail posted was down and the amount of air mail was down by ten per cent, which is pretty substantial. The number of post offices open at the year-end was reduced also, yet the staff number was up. There cannot be many industries in a recession who with decreased volume have put staff numbers up.

(*Mr Baker.*) If you were to ask these questions of Mr Dearing, to whom they are more appropriately addressed, I think he would say he was concentrating in last year and a half upon the very large number of hours of overtime that have been worked in the Post Office, and that has been a great feature of Post Office work and he has made the savings there. I have also drawn to his attention the increase in numbers and asked him what his proposals are about this.

Mr Maxwell-Hyslop

182. Lastly, we have already discussed EFL at some length, and do you think it realistic to have an EFL that is 1.19 per cent of estimated turnover? In other words, it is so tiny a margin? This was a point made to us by Mr Dearing. If that is what you are saying, would you not be better to say it directly, 'spend within the limits of your income and do not exceed it at all'?

(*Mr Baker.*) Yes; it is a small figure in relation to the total turnover but I would say to that that you have got to have a figure of some sort. I was explaining earlier how that figure comes out. The EFL next year is a negative one in that money is being paid back and over the years the Post Office has often had a negative EFL because it has been a cash generator on the whole and not a cash spender or an investor. I suppose it is small in relation to the turnover but what is the alternative? Is it to have no EFL at all and not to have a target?

183. The substance of my question is: do you really mean, as it is such a tiny external financing limit, that you do not wish them to borrow at all since they obviously are unlikely to hit a target which is within 1.19 per cent of break-even? Would it not have been better to say that in your endeavour to break-even, if that is what you really mean, than to set an EFL 1.19 per cent above it which is so minuscule in relation to turnover and is not an EFL in any real sense at all?

(*Mr Baker.*) It does represent that extra little bit of discipline.

184. Compared with breaking even?

(*Mr Baker.*) Yes; it is £25 million better than breaking even, as it were.

185. Or worse?

(*Mr Baker.*) Yes; it could go either way.

186. If it is positive it is worse, is it not, from that point of view?

(*Mr Baker.*) Yes, I think so!

187. I do not want to run back over previous territory, but do you consider the Post Office reserves within the current definition of EFL to be external or not? In other words, if they keep on a £25 million EFL but draw £70 million out of their reserves, have they exceeded the EFL?

(*Mr Baker.*) In effect, yes.

188. But technically?

(*Mr Baker.*) Technically, yes.

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189. Are you sure?
(*Mr Baker.*) Yes.

190. Is that external finances?

(*Mr Baker.*) In effect these two things have to be taken together as far as Treasury accounting is concerned because, in effect, they are drawing back from that reserve, thereby increasing the amount of money which has been allocated to them by the Exchequer. Therefore they are increasing their EFL by doing that. Whether or not you approve of that, that is the accounting consequence of it.

191. I have one last question so that I can understand the financial control exercised by Parliament. If money is withdrawn from the Post Office reserves and paid into the Consolidated Fund by the Treasury, does that require a Supply Resolution to be placed before the House or can this by-pass the House's control by some resolution?

(*Mr Baker.*) I would have to require notice of that question, Mr Maxwell-Hyslop. I will certainly let you have an answer.

192. Could you add to your paper the mechanism by which money, if you like to call it dividend, or surplus, is transferred from the Post Office to the Consolidated Fund? Once upon a time the postage stamps had 'postage and revenue' printed on them, did they not? That could have two meanings because they were used for stamp duty but I do not understand the mechanism. Who has to authorise it? Who demands it? Does it pass through the Lords Commissioners of the Treasury for authorisation, although that is normally expenditure? Does it fall within the Supply voted by the House, that being Ways and Means controls? If it does not, what is the control on that or can the Government decide to by-pass the theoretical control by the House of Commons over Ways and Means and say, "I will have £100 million out of the Post Office in addition to whatever Parliament has voted"?

(*Mr Baker.*) The paper which will be submitted to you will certainly address itself to all those points. It might be more appropriate if you asked the Treasury to prepare such a paper, Sir Donald?

(Chairman.) We will repeat it to the Treasury. We would like to have your answer as well.

Mr Cockeram

193. Could I ask you a question which

we put to Mr Dearing which he was not able fully to answer concerning the Pension Fund of the Post Office which, as you know, has a commitment to pay index linked pensions to former employees. We questioned Mr Dearing about the adequacy of that fund in the event of high inflation at some future date and he replied to the effect that if there was a short fall on the fund, which had to be made up, the Post Office would have to go to Government to stand behind that fund. He then said it would be up to the Government of the day to decide whether they would make good that short-fall. To what extent have you a commitment to make good the short-fall in the Pension Fund, if any?

(*Mr Baker.*) Could I first explain what is happening about the Post Office Pension Fund, and the BT one?

194. It was explained by the 3.5 per cent to make good the deficit of the past. BT and the Post Office are being made separate funds or separate schemes, to be precise but there is going to be an overall arrangement whereby the existing pension fund managers can act on behalf of the funds.

(*Mr Baker.*) I think you will probably be aware that there is a substantial deficiency already which is being made up. Incidentally, I am sure you are also aware that it is BT that is paying the Post Office's deficiency for the next ten years which is a very substantial sum of money, about £70-£80 million a year.

195. If there is a shortfall in the future does the Government stand behind that fund or is it entirely like a private sector pension fund?

(*Mr Baker.*) I think the principal obligation for the managers of the fund is to conduct the affairs of the fund so that it can meet its obligations and it has to do that not only by the management of its assets, but also by the rates that it has to ask either the employees or the employers to meet. It is certainly the intention that that fund will be run on a basis by which they would not have to come back to us and say, "We have another great deficit".

196. That is the intention but what is the final interpretation of the obligation if they did have to come back? I ask this question because in relation to the performance targets of 2 per cent of turnover and so on, the whole of that could be thrown totally awry by a deficit caused by high

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inflation on some future date. The question is: have you or has the Government an obligation to stand behind that fund and an obligation to index link, or does the Government say, "No, this is a private sector fund"?

(*Mr Baker.*) It is not a private sector fund; it is a pension fund in the public sector. It is separately funded and it is up to the managers of the fund and the trustees so to conduct their affairs to meet its obligations.

197. But if they fail?

(*Mr Baker.*) If they fail then they must go back to the Post Office and say, "Right, in order to meet these obligations, we will have to increase the Post Office's contribution or the employee's contribution by X or by Y". I am not prepared to agree that the general Exchequer or the tax-payers in general should take up the obligations which really should lie with a fund. It is a funded obligation.

198. Are you prepared to agree that the Government do not stand behind that fund then?

(*Mr Baker.*) I have made the position clear as we would do it. I suppose if a large deficiency did occur the Post Office would have to come to us and we would say that this deficiency must be made up out of their operational position. That may well mean that they would have to look at the options before them, one of which may be I suppose in dramatic terms postponement of investment or something of that sort, or an increased tariff for the stamp, but it is self-contained and it is up to the Post Office and the managers of the fund so to conduct their affairs that it meets its obligations.

199. That is constitutionally clear in the trust deed of the pension fund?

(*Mr Baker.*) Yes.

Mr Crowther

200. Minister, could we have a look at future prospects? Do you have a view or does your department have a view on the likely trends in increased volume perhaps of mail delivered by the Post Office? Have any surveys been done by your department to produce any forecasts?

(*Mr Baker.*) Surveys are principally done by the Post Office in this area. Could I just say we have a very small unit policing the Post Office in the department of only ten. Mr Mantle is the Assistant Secretary in charge and there are only ten people so we

do not have a heavy hand on the Post Office. It accords entirely with the philosophy of the Government that it should be the nationalised industry getting on with it. So the Post Office makes assessments of future trends of business and, as you can see, it forecasts that there will be a small decline in letter traffic.

201. What about the prospects for increasing the total as a result of the development of unaddressed mail, the direct mail advertising operations in which the Post Office is certainly getting involved now?

(*Mr Baker.*) I think there are two ways in which the Post Office could seek, as it were, to increase its business: first, to try to move to a position of having fewer increases in the price of stamps. If, in fact, one could look to a period where the price of stamps would not go up, and we have now got to the stage of increases on a 12 monthly basis and some times shorter than that, it may well be that we could consider a period where the stamp would go up rather less frequently and not by so much, and I think that is important. The second way is by new methods of delivery. As I said earlier, I did launch the Post Office's experiment of electronic mail. The Post Office is going to Readers Digest and one or two other big bulk mailers who do the circulars and the advantage there is that a lot of the stuff can be sent over the wire for part of the journey and then fed into the network of the postman's delivery. I launched the scheme about two months ago on an experimental basis. It is going quite well. I think if it can get the big bulk users of mail there will be a substantial increase in possible business for the Post Office.

202. More broadly than that, do you feel, wearing your hat as Minister with responsibility for information technology, that the Post Office is adapting satisfactorily to modern technology? Are you happy with it?

(*Mr Baker.*) Yes, I think it is adapting much better after the split, if I may say so. When it was in with BT it was always a country cousin attitude which existed and all the push was towards BT. I have been very impressed by the vitality of the management. Mr Dearing has appointed three very young managers onto his Board. They must be three of the youngest managers in any nationalised industry board. They are bright and determined people and they are committed to making their business run

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even more efficiently and grow. They will be looking for new businesses. If you are asking me to speculate more broadly about the future of the postal service, even if one gets to the stage of total electronic mail and facsimile and cable television and an interactive system for home shopping and home banking, I think there will still be a great need for the actual transmission of bits of paper. I think that people will still need them. They will be familiar certainly until one comes to the next generation or the generation after the next to deal with things like this than with information on the screen. Anyway, in the area of cable television one of the ways of selling the services and attracting attention to particular services, instead of advertising over the screen, might be to have a letter drop through and say, "This is a marvellous service on channel six", or whatever it may be.

Mr Stevens

203. Minister, you said you did not interfere day by day, week by week or month by month. What social, informal links does your department have with Mr Dearing and his directors?

(*Mr Baker.*) I see Mr Dearing about once every month or so when we talk about things in general. In addition to that, I normally have dinner with him and some of the members of his Board maybe about once every two or three months, and the Secretary of State came to the last one. Then I often bump into him at conferences and meetings. That is the sort of relationship one has. If there is a particular crisis or disruption of the mail, then he will advise me that there is a strike or there is some disruption and he will tell me about that, but we have not had too many of those recently.

Mr Mikardo

204. On tariffs, do you think the differential between first and second class tariffs is about right? Has the Department made any deep analysis of the effects on volume and on revenue of changes in tariffs or changes in the differential between the two tariffs?

(*Mr Baker.*) I think I would be misleading you if I said we had made a deep analysis. I know of no particular report by the Department on this. This is essentially an operational matter for the Post Office. In the past the gap between the first and second class post has been argued very strongly on operational grounds, that it

spreads the load operationally because they have this enormous thrust of stuff coming in, sometimes 36 million items arriving between four and five o'clock, and it spreads the load to have a differential. They have actually argued for a slightly larger differential and the Monopolies Commission report for London did argue for a bigger differential. One of its recommendations in the last tariff round was to increase the differential between first and second class by a half-penny. I think the Post Office is quite happy with the differential. On tariffs generally, that is one of the targets that Mr Dearing does discuss with me but I would emphasise I do not have the powers to raise or lower the stamp price. When the Post Office was a Government department, when I first got into the House in 1968, I remember one of the big issues was whether the stamp should go up or not, particularly in the run-up to an election. I am not making a party point. It was something in which the Prime Minister of the day took a personal interest, I remember. Those powers are denied to Ministers, and thank heaven they are. I certainly encouraged Mr Dearing in tariff negotiations this year to increase not more than once a year and, in fact, when it did appear that his profit was going to be better than forecast I suggested it should be put off for a month. It was a suggestion which he followed but he need not have followed it. So we had a longer time gap between the increases.

205. There was an answer to a parliamentary question on 5th February which said that an improvement in the Post Office's performance is possible so far as the delivery of second class mail is concerned. Could you tell us, if you know, if the Post Office has told you and it has been a point of contact between you what is the basis for that belief? There must have been a contact otherwise you would not have answered the question.

(*Mr Baker.*) I think the various measures that Mr Dearing is taking are improving the actual performance of the Post Office. The latest figure is 93.6—

Chairman

206. The answer of your Minister was, I believe, however that there is a case also for monitoring the Post Office's performance with regard to the delivery of second class mail by the second working day after collection?

(*Mr Baker.*) Yes, for the moment it is the

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[Continued]

[Chairman Contd.]

third working day. We want to try to find out whether in fact that could be improved to the second working day, so we have asked the Post Office to see whether, in fact, this can be done. Quite a lot is delivered on the second working day.

(*Mr Mantle.*) If I could add, I think the first priority is to get the Post Office in a position where it is meeting its existing day, day D, or the third working day after collection target. From memory I do not know precisely when the change was made. Originally there was a day C or second working day after delivery target which was relaxed a few years ago to day D. We have, as the second stage of this, once the Post Office is meeting its day D delivery target, to look at the possibility of whether one could set a target for day C within that existing day D target. Certainly it could not return to day C at the present time.

207. What you are saying is you are looking at possibilities for improvement?

(*Mr Mantle.*) Yes.

208. The answer you made gives the impression you were convinced there were possibilities for improvement.

(*Mr Mantle.*) Yes; there are possibilities for improvement.

209. I come back to my original question which you have not answered which is; what is the basis for that belief?

(*Mr Baker.*) That derives from our discussions with Mr Dearing. I discussed this specifically with him about three months ago and with the manager responsible. We were talking basically about London at that time. I should say they told me then that they thought that there was a possibility to improve and we are following really that particular conversation.

Mr Crowther

210. Do you feel there is a danger that improving the second class service might take some business away from the first class?

(*Mr Baker.*) There is always that possibility but there is a good volume, because of the differential in the stamp, that goes and will continue to go second class.

211. On your memorandum, Minister, which your Department very kindly sent to us on the Post Office, if you look at paragraph 9.4 on the question of deroga-

tions from the monopoly, it indicates that no further derogations are currently envisaged, but this will depend on the Post Office's performance in serving the public. Could you tell the Committee how you measure performance and what possible deteriorations in performance might lead to the Secretary of State reconsidering the question of derogation?

(*Mr Baker.*) I think they are subjective rather than absolute. They are absolute in terms of the delivery of first and second class post, and if that was to fall away dramatically to 80 per cent or 75 per cent, we would first find out why, or if it fell away in one particular area, then we do have powers under the BT Act to derogate from the monopoly and say we would allow alternative services to come along. So I think it is where the quality of service falls away that we would consider how we can know the quality of service is going to fall away and that is by public complaints in principle.

Mr Mikardo

212. It transpired from earlier exchanges, Minister, that to some extent the performance of the Post Office is decided, not by the Post Office, but by Government.

(*Mr Baker.*) I do not agree with that, Mr Mikardo.

213. The fact that you can decide how much of their reserves they may use clearly influences their performance, perhaps in particular in connection with mechanisation of sorting offices. So we have got to see the situation that you can influence and the performance that you can influence upwards or downwards and if you choose to influence it downwards you could then use that as a trigger mechanism for further derogation.

(*Mr Baker.*) That is so Machiavellian that I just do not think it would happen.

214. Governments have been known to be Machiavellian.

(*Mr Baker.*) We are not going to use restrictions on EFL as a means to create conditions in which one can derogate from the Post Office's monopoly. That is fanciful.

Mr Crowther

215. So that in deciding whether the performance is satisfactory you are measuring it within the set of standards which takes into account the amount of money

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[Continued]

[Mr Crowther *Contd.*]

you have allowed them to invest in mechanisation?

(*Mr Baker.*) Clearly it is a factor.

216. You are actually setting the standard yourself, then measuring the Post Office's performance against it?

(*Mr Baker.*) Yes; the standard has been set as a target for delivering first class and second class mail.

217. Presumably there are other matters besides the first and second class targets?

(*Mr Baker.*) Yes.

218. What other matters would you take into account in this respect?

(*Mr Baker.*) I am rather hypothesising now but if the service to a particular area got very slack and did not come in the morning — and this has not happened — or perhaps there are complaints on delivery times or actual gatherings or collections of mails, on the whole I think it would be the general ability to collect the mail on time and deliver it on time.

Mr Mikardo

219. You said a judgment is subjective earlier.

(*Mr Baker.*) All judgments to some extent are subjective.

Mr Crowther

220. Going back to the memorandum, Minister, one of the items particularly referred to is this, where it fails to respond adequately to new market demands, and that is one of the particular fields in which you are going to look. Could you enlarge a little on what you mean by 'adequately to new market demands'?

(*Mr Baker.*) If, for example, let us suppose that management of the Post Office had become very moribund, and had not tried to go out after new business and had not done electronic mail, and had neglected a clear opportunity, then we would be prepared to say, "Right, we can grant a licence to people to do electronic mail". I give that as an example. There may be other things but I am finding that the new Post Office Board and the younger managers and Mr Dearing are coming forward with all sorts of ideas that they want to do to increase their business.

221. I was going to ask if we could look for one moment at the other side of the coin. Are there fields of activity in which the Post Office is not at present able to engage but in

which it could engage quite satisfactorily and profitably without much alteration in its level of equipment, etcetera?

(*Mr Baker.*) One of the opportunities that the Post Office has is to engage in private ventures if it wants to and it may want to extend the amount of private sector work over its counters because one of the great assets of the Post Office, including the sub-post master network, is the counters, and the number of people who use them. They are free to go out and tout for business with the building societies or to sell tickets and all sorts of things. They have explored and are continuing to explore things like that.¹

222. You do not feel with your small staff, as you mentioned earlier, monitoring the Post Office that you will have difficulty in deciding on whether it is performing well or not?

(*Mr Baker.*) I was perhaps implying a certain greater degree of freedom in relation to your last question. We have explored particularly as regards the sub-post master network to see if there are other ways. It has proved difficult, actually much more difficult, because the sort of agencies that want remote positions where business can be done tend to have a good network themselves. The building societies have a sub-network themselves.

223. I was asking one last question on the matter of monitoring performance. Do you feel that your own departmental staff, which you said before is very small, is adequate to do a proper monitoring job?

(*Mr Baker.*) Yes, I do.

Mr Stevens

224. Could you tell us what the trend of business of Datapost has been since the passing of the Act last year?

(*Mr Baker.*) You mean by that electronic mail?

225. I mean the premium priced mail which travels more quickly internationally?

(*Mr Mantle.*) We do not have the precise figure with us. We know that the Post Office has employed much more in the way of

¹ Correction by witness: Where the Minister gave the impression that the Post Office could undertake work for the private sector over its counters. It can only in fact do so if (as in the case for example of the building societies) such work is undertaken as a banking transaction through National Girobank.

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[Continued]

[Mr Stevens *Contd.*]

resources into marketing that service. One would expect, if the marketing is successful, that the service would have grown considerably.

226. The Association of International Air Couriers have been kind enough to submit a paper to us saying that since the Act received the Royal assent last year the turnover of their members has increased by between 25 and 35 per cent which is a very substantial increase. It is clearly of interest to know whether that has been at the expense of Datapost which in some sense is the competitive part, although they argue it is not really, or if Datapost had gone on, they would have had a bigger advertising campaign, for example.

(*Mr Mantle.*) All I can say by implication, because I do not have the figures with me, is that in the monthly sessions that I hold with the Post Office to review the whole of their financial position, we would normally note any particular measure or change in performance of a group of services. If it had got very much worse in the last six months, I am sure that would have come to our attention.

227. When you write to us the note you are going to give, there might be a sentence telling us about the Datapost performance in comparison with Independent Couriers?

(*Mr Baker.*) Of course. Like many premium services, Datapost, as the service provided by International Couriers, rises in activity the wider it becomes known. The costs are very expensive to get the stuff over to New York, definitely delivered to a destination, guaranteed, by tomorrow. This is definitely a growth area; there is no question about that.

Mr Crowther

228. Coming back to the note which your Department sent us, you do say in 9.6 that you estimate the volume of Post Office traffic in revenue put at risk by the liberalisation method is roughly 1-2 per cent. Do you visualise that being an accurate statement for the future in the light of what you have just said in reply to the last question?

(*Mr Baker.*) The service we have just been talking about is in volume terms compared to the amount of letters and business and parcels that the Post Office handles very minute indeed.

229. It will be bigger in revenue terms, will it not?

(*Mr Baker.*) Again, it is very, very small. It is small in relation to what they are doing. We would stand by that estimate, the figure you quote, 1-2 per cent. I think that figure does not include the effect of charity Christmas cards. That might have an additional effect, and that is something very difficult to assess. Quite frankly, none of us know. We have given charities the right to make their own arrangements for the delivery of Christmas cards. I think this last Christmas a few boy scout groups were recruited to do it. I do not know whether charities in the course of this next few months will be arranging a much more elaborate system for delivery.

Mr Stevens

230. Would it help you to know that the Cancer Research Campaign appeal, of which I am Chairman, is the biggest distributor of Christmas cards in the country and they could probably test this and say, if it would be helpful.

(*Mr Baker.*) I think that would be useful to know.

Mr Crowther

231. Do you happen to know what that percentage would be if Christmas cards were included?

(*Mr Baker.*) It is difficult to give that because one does not really know, for the reason I have just stated, whether charities are going to use it. We had representations from one or two that they would like greater freedom and perhaps ones particular locally based may be able to do something. There are obvious difficulties for a national one to arrange national delivery of Christmas cards because you will want to go up to Mrs Bloggs at 36 Acacia Avenue which is the most remote part of the most remote town.

232. You are talking in your memorandum about the volume of traffic and revenue put at risk by the measures, not all necessarily already lost. Would it not be possible to adjust the percentage to take in the Christmas cards' volume as well?

(*Mr Mantle.*) That would be something that only the Post Office could make precise predictions on about traffic. It depends how much of their Christmas mail is going to be cards. I think only they would have the statistical techniques.

233. Do you feel there is a danger all these liberalisation measures would make it more difficult for the Post Office to reach

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[Continued]

[Mr Crowther Contd.]

financial targets, bearing in mind the Post Office presumably will still have to carry the loss-making operations as a social obligation?

(*Mr Baker.*) I have no anxiety on that count. I think the relatively limited derogations we have made have, although they are limited, acted as something of a spur to the Post Office. It is certainly on much broader derogations as regards BT. The introduction of competition is a much bigger spur to BT.

234. There is a question on the agency services agreement. Can you tell us about the progress which is being made on a new agency service agreement?

(*Mr Baker.*) I am glad to say there is considerable progress there because the old method was cost plus and cost plus on the whole leads to laziness. We have moved away from cost plus which is really a very unsatisfactory method of costing and is lazy and it is bad. We have now got on to the basis of fixed charges which are going to be agreed. That is a much better system.

(*Mr Mantle.*) Prices are being agreed now.

235. You feel a basis of fixed charges will increase efficiency?

(*Mr Baker.*) I think it will.

236. In the existing agreement, what was the basis for arriving at a 4 per cent figure, do you know?

(*Mr Baker.*) I think that was composed of the 2 per cent return on turnover on which we started.

Mr Mikardo

237. 2 per cent for luck?

(*Mr Baker.*) It is a target, Mr Mikardo. It may be imperfect. It may not be the one you want but it is a target and does concentrate people's minds like all targets; it is plus 1.5 per cent for losses and robbery, errors and 0.5 per cent for risk in the form of unpredictable factors, namely that volume throughput was not as great as was anticipated when this arrangement was set up.

Mr Hill

238. Mr Minister, just a very straight question for a change; are you satisfied with the progress of the Girobank to date?

(*Mr Baker.*) Yes.

239. That is a straight answer. Can you elaborate in any way?

(*Mr Baker.*) I think under Mr Wainwright it has made significant progress which will be available for you on the number of accounts they are getting, they are in the memorandum, and I visited them, of course, up in Bootle. The increase is very good and they have also gone out and got a lot of trading customers. I was quite impressed when I went to see their cheque sorting arrangements in Bootle and the number of retail customers they have got, Sainsburys and people like that. Cheques are handed over at the retail points which are banked with Girobank. Immediately they can take them in when the other banks are closed. The cheque handling operation is successful. They are increasing their actual number of accounts all the time. So I think there is good progress.

240. Paragraph 21 of PO3 seems to contemplate a Girobank with direct control of its outlets. Is that how you see the future, and if so, how distant is it and what would be the effect on the Post Office?

(*Mr Baker.*) I do not think we would see that as the future. I think what that paragraph was doing was attempting in general terms to set out the strengths, the large number of outlets, because that is one of the strengths of the Girobank, and the opening hours; and the weakness of Girobank. The question which really comes to mind is: is there a way of overcoming this weakness? Our answer is that in the foreseeable future we can see no alternative for a nationalised Girobank than to use Post Office counters, but I would not categorically say there would never be an alternative.

241. Could not this plethora of Post Office buildings be used in certain areas?

(*Mr Baker.*) On the whole agencies that have their own network, like the banks and the building societies, want to promote just specifically their services and do not want to do it on a cooperative basis.

242. Paragraph 14.2(c) speaks of competition with the clearing banks. Is this going to be fair competition?

(*Mr Baker.*) I think so, yes.

Mr Mikardo

243. Would you agree that judging from the annual returns of the Big Four banks recently, they do not appear to have suffered too grievously from the competition of the Girobank?

(*Mr Baker.*) The factors that make up the

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profits of a bank are many, Mr Mikardo, as you will know.

Mr Hill

244. The reason I asked whether it is fair competition was because the Girobank has received £5 million public dividend capital and loan of £2.3 million to enable it to pay the windfall tax.

(*Mr Baker.*) This was the special tax on banks' non-interest bearing deposits. It bears particularly heavily on the National Girobank. I went to see the former Financial Secretary about it when the windfall tax was introduced and provision for the amount was made at the time. In fact, it hit the National Girobank particularly hard and in order to enable the Girobank to continue with its capital investment programme, it was necessary for the Government as shareholder to inject additional funds. The National Girobank will be expected to pay interest on the loan fund element of it and after 1981-82 dividends on its public dividend capital.

Mr Stevens

245. You used the term 'shareholder' which earlier on you told us did not reflect the true situation. Can you tell us why, this is perhaps breaking Mr Hill's line of argument, it is that we set up nationalised industries in a format other than that of Companies Act companies? Surely it would be much easier, particularly where some element of privatisation is being introduced, if the state industries were formed in the same way as the private industries?

(*Mr Baker.*) I would broadly agree with that. I think the historic reason is that they have come out of public service. The nationalised industry we are talking about at the moment was a Government department twelve years ago. I think that there is a good deal of sense in making nationalised industries where appropriate into Companies Act companies. I am not saying it would be appropriate for the Post Office but it might be appropriate for others because it is easier under those arrangements to introduce private capital by way of participating shares. It is possible.

Mr Hill

246. My final question then is this: you

obviously think it is not unfair competition with the clearing banks?

(*Mr Baker.*) The clearing banks have never said that to me.

247. Is there not a discrepancy in the Banking Act 1980 which requires Bank of England approval to continue to use the word 'bank' in the title because it is a bank in the true sense of the word, or is this just one of these rather convenient consumer orientated titles?

(*Mr Manlie.*) Chairman, I have to rely on my memory again. I know that at the time of the Banking Act when the National Girobank position was considered, in respect to that we had a lot of discussions with the Treasury, in particular about whether the name of the Girobank should be in three separate words—National Giro Bank—or National Girobank, two words. Because of the constraints of what then seemed to be likely to be in that Act the two word version, National Girobank, was used. I would have to go back and check in my files to find out precisely what the nomenclature of the origin of the word 'bank' is in relation to the Banking Act 1980 and how that affects the position.

Chairman

248. Surely you have been properly licensed, have you not?

(*Mr Manlie.*) Yes.

249. Are there difficulties?

(*Mr Baker.*) It has been properly licensed as a deposit taking institution, Sir Donald.

250. Unless my colleagues have any other points, that brings us to an end of the specific points upon which we wish to question you this morning. There may be some other point that we have not raised that you would like to refer to; if there be, then would you care to make any short comment now?

(*Mr Baker.*) No, I think we have had a very good run round the course, Sir Donald.

(Chairman.) All that remains is for me, on behalf of my colleagues, to say thank you very much indeed, both to you and your assistants, for your presence this morning and the manner in which you have answered our questions in particular.

WEDNESDAY 17 MARCH 1982

Members present:

Mr Stan Crowther
Mr James Hill
Mr Thomas McNally

Sir Donald Kaberry, in the Chair
Mr Robin Maxwell-Hyslop
Mr Martin Stevens

Memorandum from the Post Office Users' National Council (POUNC)

It has been indicated to us that the Committee's primary purpose will be to ascertain the current financial position and future prospects of the Post Office but that consideration would also be given to such matters as investment plans, productivity, relations with the public and competition with the private sector. POUNC's views are as follows:—

Current financial position

In our Report No. 24 of November 1980 on the Post Office Proposals for Increases in Tariffs we expressed doubts about the results for the financial year ending March 1982. The Post Office forecast at that time showed a substantial shortfall from their financial targets agreed with the Government.

Our prediction then was that without strong action by the Post Office to contain costs the loss on postal operations in the year ending March 1982 could be of the order of £60 million. This figure was not disputed by the Post Office. When the Post Office subsequently applied in October 1981 for an increase in tariffs from 4 January 1982 their then forecasts showed they had made considerable progress in containing costs and increasing postal traffic. Instead of a possible loss of £60 million, they were then forecasting a small profit (£9 million). It was on the basis of this perceived improvement in Post Office finances that POUNC felt able to suggest a three months deferment of the increased tariffs as an exercise in price restraint for the benefit of customers. We considered that our proposals would be a real challenge to management to find further substantial additions to the improvements they had already made. We believe that although the Post Office felt able to accept only one month's deferment, improvements have been made in volume and productivity which together with the increased tariffs will enable them to meet the Government's financial targets whilst at the same time funding a substantial part of their investment requirements.

If our expectations are fulfilled this will be the fifth year in succession that Posts have made a profit. However as the following figures show, profits have in the past been due largely to annual tariff increases; indeed the tariffs were increased twice in 1980/81 to enable Posts to meet their financial target.

June 1977 increases

Increases (7½ per cent) needed to avoid deficit in 1977/78. Yield revenue of £60 million resulting in forecast profit of £28 million. *Actual profit £40.4 million.*

August 1979 increases

Post Office forecast (in May 1979) a loss of £63.5 million in 1979/80 [shortfall of £95.5 million from financial target]. Post Office statement that increases were 'minimum needed to allow Business to stay in the black and meet Government financial target'. *[Actual profit £49.3 million (but includes effect of February 1980 increase)].*

The cost of printing and publishing this Minutes of Evidence is estimated by Her Majesty's Stationery Office at £3960.

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[Continued]

February 1980 increases

Post Office forecast (in October 1979) £35 million loss in 1979/80 (£68 million shortfall from target). Actual profit £49.3 million (£12 million projected saving from economy measures).

January 1981

Forecast (in October 1980), loss of £38 million in 1980/81 without price increase. Forecast profit of £7 million with increase. Actual result—£29.2 million profit. [Economy measures].

February 1982

Forecast (in September 1981) of £9 million (without price increase) in 1981/82. However Government financial target would require profit of £48 million. Price increase designed to achieve this. [Economy measures].

Our recent experience suggests there has been a considerable improvement in the business, reflecting a significant management effort to contain costs and to increase postal traffic, both in inland letters and parcels and in various "good housekeeping" savings. Our impression is that financially and operationally the Post Office is now in a much sounder position than it was only a short time ago and that it is making strong efforts to keep its tariff rises within the Retail Price Index increases.

Future Prospects

When the Post Office applied for the tariff increases from 4 January 1982, they estimated that without the proposed tariff increases for 1982/83 they would make a total loss of £205 million; with the increases from 4 January they would make a loss of £35 million. The most recent estimate we have been given, shows that after allowing for the effects of the deferment of the tariff increases by one month the forecast loss is now £27 million. We believe however that the Post Office will meet its financial targets for 1982/83. We have noted with approval their Chairman's intention not to increase prices for a year.

Given the tentative nature of some of the estimates POUNC considers that 1982/83 will be no more demanding on Post Office management than in the past provided the wage settlement for that year is restricted to a modest increase.

POUNC is however very concerned that the Post Office has a prior commitment to meet Government imposed financial targets. The current targets set by the Government are that the industry must achieve a profit of 2 per cent on turnover in each of the years 1980/81 to 1982/83 and make an EFL contribution of £25 million in 1981/82. In addition it is to keep its tariff increases within the increase in RPI over the five year period ending 1982/83.

In our Report on the Post Office Proposals for Increases in Tariffs from 4 January 1982 we commented on this aspect of the Government control of the Post Office. We questioned whether nationalised industries should be in the privileged position of being able to impose price increases on customers to enable them to meet financial targets set by the Government which companies in the private sector could not hope to achieve in the current economic climate. Customers have difficulty in reconciling the Government's declared aim of fighting inflation with the policy of insisting that the Post Office meets these financial targets. We think that flexibility to allow a carry forward of financial outturn against targets taking one year with another would enable the Post Office to recover in subsequent years revenue foregone when the economic conditions make tariff increases inappropriate.

Investment

The Post Office has assets with book value of over £350 million but many of the major buildings are old, in poor repair or badly sited; few of these buildings are suitable for modern mechanised handling equipment. This calls for a major investment programme the source of funds for which will be profits. Recent information suggests that investment will total £700 million over the next 5 years of which £500 million is for the new mechanised sorting offices. The EFL set by the Government governs the scale of investment each year.

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[Continued]

and the limited information available to POUNC suggests that the original modernisation programme has had to be extended several times because the EFL has reduced available investment funds. At a time when the management and the Unions are making great efforts to improve productivity and quality of service, any delay to the investment programme, particularly the mechanised sorting offices (which we understand will fall 2 years behind schedule) can only jeopardise the improvements already attained.

Productivity

Productivity in this Business has been a matter of concern to POUNC for several years. From 1970/71 to 1976/77 there was a fall of over 13 per cent. Since then there has been an improvement, but the levels of items handled per gross hour are still below those of 1970/71.

The Management introduced two years ago a voluntary productivity bonus scheme (the Improved Working Method scheme). The latest figure we have been given shows that 45 per cent of eligible staff are now in it. We congratulate the Post Office and the Unions on the introduction of this scheme, but we consider it is necessary to ensure that the public also partakes in the benefits by improvements in the quality of service and some measure of price stability.

Relations with the public

Our experience is that the customer is particularly concerned about two aspects of the Postal business — prices and quality of service. We have commented earlier on prices. As the following table shows, the quality of service for first class mail has not yet got back to the levels of the mid-1970s. However second class shows a better picture.

	1975	1976	1977	1978	1979	1980	1981
1st class	89.2	92.4	92.9	90.0	84.9	78.9	86.4
2nd class	84.2	97.9	96.0	94.2	88.3	82.1	92.3

We are satisfied that the Post Office has made great efforts to improve the quality of service it gives from the unacceptable low standards it reached in the Summer of 1979. Although the Business is now within sight of its target of delivery of 90 per cent first class mail by first working day after collection and 96 per cent of second by the third working day, current figures show that in some areas of the country there is still some way to go to meet the targets. It has been suggested that consideration ought to be given to a subsidiary second day delivery target for second class mail. Until the existing targets are being consistently attained, we would not wish to pursue the idea of subsidiary targets.

As a Consumer Council our prime duty is to ensure that the Post Office is managed in the interests of its customers. As we have said earlier, the customer judges the Post Office by the value he perceives he is obtaining for his money. He is therefore concerned that he has a reliable service when he wants it which means a consistent meeting of delivery targets at times convenient to the customer. The reliability of service is crucial to customer relations and ought to be a prime aim of the Post Office. Prices, particularly stability of prices, are also very important to the customer and there is evidence that the Post Office is aware of this and is now making efforts to keep increases within the increase in the Retail Price Index and not to increase prices more than once a year. POUNC asks that the Post Office should try to break away from the practice of annual price increases and work towards more extended periods of stability.

The relationship between the Post Office and POUNC is good with a free and frank exchange of information and opinions between the two bodies. Management makes positive responses to our suggestions as for example they did with their new Code of Practice which sets out the standards of service the Post Office aims to give and what customers can do if things go wrong.

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[Continued]

There is thus increasing evidence that the Post Office is now paying a great deal of attention to the needs of customers.

Competition with the Private Sector

The British Telecommunications Act 1981 provides for services which are no longer subject to monopoly control to be removed from POUNC's remit, after consultation. Inevitably increasing areas of the Business will be removed from monopoly control. POUNC's view is that where competition exists the discipline of the market place should provide the safeguard for customers.

Whilst therefore we welcome the steps taken by the Post Office to set up and introduce new, competitive services, we do not see it as appropriate for the Post Office to be required to consult us over pricing, operational and performance aspects of such competitive services. But in fulfilling our broader role of representing the interests of the generality of Post Office customers we wish to be kept informed about developments in non-monopoly areas and about the effects of these on the overall performance and efficiency of the Post Office. We are particularly concerned that the introduction of competitive services should not be at the expense of and to the detriment of the monopoly services; we have no evidence that this is happening.

Customer Audit

POUNC has proposed a "customer audit" of the Post Office as a means of monitoring whether the customer is getting value for money. The audit would take the form of a constant surveillance of targets agreed with the Post Office. Such a system would provide objective evidence which would be of great benefit to your Committee in its periodical enquiries into the functioning of the Post Office.

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MR J A MORGAN, MR J HEATH and
MR K TIMMINS

[Continued]

Examination of witnesses

MR J A MORGAN, Chairman, MR J HEATH, Secretary, and MR K TIMMINS, Assistant Secretary, Post Office Users' National Council, called in and examined.

Chairman

251. May I welcome the representatives of the Post Office Users' National Council. Mr Morgan, your Council has over 20 members, all of whom are appointed by the Secretary of State. I think what we would like to know is how do you organise yourselves within the Council to carry out your watchdog functions. For example, how much staff have you and what are their specialties?

(*Mr Morgan.*) We have a staff of 19, Chairman. These are civil servants and I should perhaps explain that Mr Heath is the Secretary of the Council; Mr Timmins is Assistant Secretary and they therefore head up that staff. The Council has 19 members. It has a full establishment of 33 so we are quite a number short on the total. These are appointed by the Secretary of State for Trade and include the Chairmen of three country councils; those cover Northern Ireland, Wales and Scotland. The others are appointed partly as representatives of particular areas of interest such as the consumer industry generally, but largely they sit as lay representatives, not delegates for any particular trade association or interest. I think we are rather an unwieldy body. We meet about eight times a year but of course in considering a particular issue or some point between ourselves, say in the Post Office, we tend to divide ourselves down into sub-committees. These consist usually of four or five members and for the most important sub-committees I sit as Chairman of them.

252. Do you find finance a problem with your organisation? Does it influence the quality of the monitoring activity that you can carry out?

(*Mr Morgan.*) No. We have adequate finance for the job to be done. I think one should say that the role of the Users' Councils is now under examination through a consultative document published by the Department of Trade and that tends to lay great emphasis on the handling of complaints on behalf of customers. We have tended to take a more central line and to deal with postal policy matters and management, and therefore we do not need large resources in terms of finance or in terms of people. I think there is a case for

saying that the Council would be well served if we had say two more senior people of the level of my colleagues who are with me this morning. We could do a greater job, bigger coverage, and a better job but in terms of numbers or finance I do not think we would want more.

253. Would you recommend any changes in the present organisation to enable you to improve the effectiveness of POUNC as representatives of the consumer?

(*Mr Morgan.*) No, sir.

254. Tell me: when notification of proposed tariff increases is received from the Post Office can you appraise adequately the financial implications of the increase and the extent to which the Corporation can reduce its unit costs?

(*Mr Morgan.*) We have improved the input to the Council and to the staff supporting it by a fairly detailed process of discussion with the postal management, for example quarterly meetings and interim meetings in between those quarterly meetings which give us a pretty good idea in so far as an outsider — outside of the management that is — can have a good idea of the staffing, postal finances and the financial outlook for the business. I think it would require inside knowledge and I think that would be wrong in the context of our relationship with the Post Office, to say that we would then be in a better position to assess the financial effect of a tariff increase. If I could take an example, we were able to arrive at a fairly accurate forecast, as we now know on the basis of subsequent information, for the financial outcome of the current financial year which ends in a few days' time. When we last considered a tariff increase by the Post Office, last autumn, the recommendations we made on the basis of that forecast were that the Post Office should not impose this tariff increase. It should either slip the timing of it, leave it over for a further three months until April, or possibly impose a lower tariff increase. In the event we achieved a slippage of a month. It was a gesture, you might say, on the part of the postal management, so the customer benefited to that extent. The loss

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to the Post Office in revenue foregone was about £12 million so that three months would have been £36 million and that actually would have achieved I think the kind of figure which will be shown, as I now judge, it when the Post Office figures are published later in the year.

Mr McNally

255. Why should you not see the books? Why should you base your judgements on guesstimates?

(*Mr Morgan.*) Seeing the books—I am not sure what you mean by that.

256. You said it would not be right for you to see all the figures before coming to a judgement.

(*Mr Morgan.*) Again, I am not sure what you mean by "all the figures". What we see is a rolling forecast and the effects of changes on that forecast quarter by quarter through the financial year. We believe that we can arrive at a sufficient estimate on the basis of that kind of information for our purposes. If we are going to go through the books, look at the detailed costings of the Post Office and so on, I think that is doing the management's job. I do not think that is a role for a Users' Council. I think the Users' Council is there to criticise the result of that job. If it needed more information to do that, well and good, and I am sure that would be forthcoming from the postal management.

257. You feel you get enough information to make proper judgements and carry out the role of the Users' Council?

(*Mr Morgan.*) I feel we do, yes.

Chairman

258. Do you look at it not only from the Post Office point of view but, because of the nature of your appointment, from the customer's point of view, for these constant increases in stamp charges are providing quite a burden both on private purses and particularly of course in commerce?

(*Mr Morgan.*) As a Users' Council we are adversaries of the postal management and I think any feeling that we are getting too cosy in our relationship and that it was not a critical and sometimes hostile climate would be something we would have to take very seriously. At the same time I have taken the view in my short period as Chairman that we cannot be totally lacking

in understanding of the postal management's problems. I do not think the customer, for example, can be entirely insulated against the effect of inflation and so there has to be some measure of understanding about why tariff increases are imposed. The fact that we do not like them, the fact that we criticise them, the fact that we say sometimes they should not happen at all or sometimes should be less, is I think where the customer's voice comes into play, but he must understand that he cannot simply have it all his own way.

259. Do you think your Council ought to be represented on the Post Office Board?

(*Mr Morgan.*) No, sir.

260. Why not?

(*Mr Morgan.*) Again, I think we are independent adversaries. You cannot sit on a Board in my view as a delegate and you cannot do other than share the responsibilities of the Board as a group. It is a Cabinet responsibility and I do not believe therefore that a consumer representative on a nationalised industry board can take the proper independent view which a Council such as ours must take. Also I think such a person is, so to speak, muzzled. He cannot carry his case outside the boardroom and one of the very few sanctions which a Council such as ours enjoys is that it can take its case to the public.

261. But would it not enable your Council to have an insight into the finances about which Mr McNally was recently asking you a question?

(*Mr Morgan.*) It would have further insight, yes, but I think it would not be able or not be free to make use of that insight.

Mr Crowther

262. Could I ask first, Mr Morgan, is the relationship between your Council and the Government and the industry for which you are responsible—not responsible; the industry you keep an eye on—any different from the relationship enjoyed by the consumer bodies in other nationalised industries?

(*Mr Morgan.*) We have a statutory position and we have oversight over perhaps a wider range of topics than some of the other users' councils. I think though that our relationship is very dependent on the informal basis of it. If we enjoy a good working relationship—and again I do not imply by

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that a cosy relationship — with the management and have adequate access to government departments, then we can carry our case I think about as well as it would be possible to do. Further powers certainly would not help us.

263. I was interested in the staff figure that you gave. If my recollection is right, you have a larger staff than the Department of Industry have dealing with the Post Office. Am I right in that so far as you know?

(*Mr Morgan.*) I have no knowledge of the accuracy of the statement, though I would tend to doubt it. Nineteen staff does not appear to me to be a large number when one considers that we are a central Users' Council. We do not have regional representation as some of the others do for example and therefore the whole business of POUNC falls on that staff and I should say in that context that about 80 per cent of the staff are employed full time dealing with complaints; there is a substantial clerical and mechanical role which is being played by POUNC which is why I said that perhaps two more people at senior level, which is really attacking management at the centre, would be a strong addition to our staff.

264. I was not wishing to imply that you were over-staffed but merely that you appear to be better equipped from a staffing point of view to monitor the Post Office affairs than the Department is.

(*Mr Morgan.*) Could I perhaps add, simply for the sake of clarification, that the Council does cover both sides of the old GPO. We also monitor Telecoms.

(*Mr Hill.*) When the Chairman asked you about your financial status, you said you enjoy adequate finance. I wonder whether you could define that a little more clearly?

Chairman

265. Not that we regret it!

(*Mr Morgan.*) Perhaps I could give some figures to the Committee, Chairman. The estimated cost of POUNC to central funds, which is where we draw our money, is around £250,000. About £180,000 of that represents accommodation and salary costs and that is met by the Department of Trade as our sponsoring department. The balance of £70,000 is what you might call POUNC's running expenses and usually we under-

spend that by quite a substantial figure. These are Council expenses; the travelling expenses of members; subsistence allowances; entertainment, a small amount; office expenses — telephone, post, all that kind of thing; office equipment, and a certain amount of printing and publicity. We do of course produce quite a lot of reports, partly because there are a lot of tariff increases, and that adds to our printing bill quite substantially. We also have a relationship informally and at arm's length with bodies called Post Office Advisory Councils, POACs, which exist — there are about 200 of them — to a greater or lesser extent up and down the country dealing with local issues in conjunction with the local Post Office management, and we provide about £18,000 to them as a help to their expenses.

Mr Hill

266. If you have any underspending are you allowed by the Department to carry that on in the following year or is that returned to the Department?

(*Mr Morgan.*) No, sir. It is an annual imprest I suppose. No, we do not carry it forward.

Mr Crowther

267. Has there been any suggestion or any proposal to split your Council and its activities as a result of the separation of British Telecoms from the Post Office?

(*Mr Morgan.*) There was a proposal, or at least powers were taken, in the Telecommunications Bill, that in the event that it became advisable to split the Council this could be done. I am in a delicate position. My Council, with whom I discussed this question, as a result of the Department of Trade's consultative document, was firmly of the view that that was not the way to go about it. I personally am very firmly of the opposite view. I think the logic of splitting two very different businesses leads to the logic of splitting POUNC itself into two councils. Equally, I have said that perhaps the consumer representation activity in Telecommunications would be better discharged under a different authority which would have much more wide-reaching powers. But that, I am aware Chairman, is not what we are discussing this morning.

268. Would the decision as to any split be made by the Secretary of State?

(*Mr Morgan.*) Yes.

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[Mr Crowther *Contd.*]

269. Could we now have a look at your views on one or two aspects of the Post Office finances please: first, the negative external financing limit. What view does your Council have on the imposition of such a thing on the Post Office?

(*Mr Morgan.*) I think it is clearly difficult to argue about the principle of external financing limits as such. The Government takes a view about this and we as representatives of the customers, just like the management, must accept it eventually. The fact that the Post Office has a negative EFL, i.e. it has to pay money back, I think is a bit hard. I think it is a bit hard in the following sense, that the Post Office has a considerable demand for investment money. It has built up reserves for example in the past, i.e. the sacrifices of customers of past years if you like and yet it is required both to pay money over to the Government, £25 million per annum over the next three years, finance its investment expenditure, and all out of the current year's income. It is the treatment rather than the fact of the EFL which I find disputable on behalf of the customers.

270. I was going to ask for your comment on the other point which you have just mentioned, the requirement to finance its investment out of its own resources. I think you have already answered that. You are not very happy with that, are you?

(*Mr Morgan.*) I think it is monstrous. The whole question of the Post Office investment — when I say "Post Office" I mean the postal service — is something about which perhaps we would plead guilty of neglect somewhat. We have not made representations on this subject and we have not highlighted the position of capital investment in the Post Office. We now have a situation I think where we have had the benefit if you like — "benefit" may be the wrong word — of price restriction or an attempt at least to hold prices down, partly by neglect of capital investment or the slipping of capital investment, but ignoring the maintenance payments. The Post Office now has a substantial investment programme over the next five years, — most of which is inescapable, and which it is going to have some difficulty in financing. It will certainly not meet the whole of its requirements out of its own resources and yet it has a £25 million per annum payback on top of that.

Mr McNally

271. If you have read the earlier evidence, a number of the members of this Committee have felt uneasy about the delays in capital investment which under-utilises equipment already in place, but you say that you have made no representations either to the Post Office or to the Government about this. Is it not time POUNC started banging on the table on this and getting some pressure on both Ministers and the Post Office to make a more logical capital investment programme.

(*Mr Morgan.*) I have already pleaded guilty to the accusation that is being put forward, Chairman. I should say incidentally that we have not been silent on the general question of capital investment, but of course it has been much more prominent in the field of telecommunications than postal management. Along with others we have perhaps tended to take a much more relaxed view about postal investment, and certainly the fact that one side of this business, now divided anyway, is able to plead on vast technological grounds the need to invest huge sums of money, whereas a miserable £700 million over five years is regarded as not really permissible in the postal side, does come rather hard and I think it is true that this kind of situation may come as something of a shock when it is presented in its true light. One can elaborate on this, Chairman, to some extent, that Posts is regarded as a kind of friendly, 19th century business of moving pieces of paper up and down the country to the detriment really of the fact that it is a technologically based business, or should be, just as much as any other. The fact that one can put the squeeze on the postal management and say, "Well, you do not need to replace your buildings this year. Let us leave it a bit longer" and "You do not need to go in for all the futuristic optical character recognition devices just yet, do you?" means I think that they get a pretty bad deal and this must be corrected if only because one is saying, "Be more efficient, do more business, get more volume, carry yourself into areas you have not covered before, and particularly defend yourselves against the attacks of other technologies."

Mr Crowther

272. If you say you are pleading guilty to having failed to make representations to the Government on this point so far, what are the possibilities of your Council rectify

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ing that omission in the future and making such representations?

(*Mr Morgan.*) We shall make such representations.

273. I am very pleased to hear that. On this strange system which is imposed on the Post Office uniquely, requiring it to have a target return based on a percentage of turnover rather than of assets, what are your views on that?

(*Mr Morgan.*) I think taken in conjunction of not necessarily a target but an agreed policy to restrain prices within a particular movement of the RPI it is quite a good target to have. Posts is a difficult business. It has a huge volume. It has a comparatively small profit. It is very labour intensive and I think it is rather difficult to set a target of return on assets or that kind of thing, so one is looking for something which is a bit of a compromise. From the customer's point of view I think 2 per cent of turnover, given a management committed to price restraint along a certain formula perhaps is sufficient.

274. In your memorandum which you have sent to us you say on page 2:¹ "Our recent experience suggests there has been a considerable improvement in the business." Further you say that your impression is that financially and operationally the Post Office is now in a much sounder position. Can you tell us how you have arrived at these conclusions? I presume, this is not just guesswork. You have obviously got some sound evidence for this?

(*Mr Morgan.*) Yes. I think that has to be taken in the context of a really rather bad position only quite recently, two or three years ago, so one is talking of an improvement which is pretty short term so far. Nevertheless productivity in the postal service was declining for 10 years. It has been starting, and by perceptible management effort, to rise somewhat over the last two or three years, and one has some confidence that it will continue to rise. That is not to say that this is a satisfactory position. There is plenty of room for improvement; but there has been some improvement, on the basis of management tackling the problems which I think we all would say it should have tackled a long time ago: working methods, overmanning, that kind of thing. Equally I think although it has a record on prices which, taken over a fairly long

period, say 15 years, is poor, and very very poor in 1979, it has started again to address itself — management has started to address itself — to the question of pricing and the customer, and we have had a slightly better deal on prices over the last two tariff increases than previously we were getting. I think anecdotally it is worth recording that the postal service kept going and kept going well over Christmas and during January when it had peculiar and unusual difficulties to cope with: bad weather, the rail strike, that kind of thing, and it did keep its service going. It has achieved reasonably high standards of delivery through that period. Overall the quality of service as measured by mail deliveries is also showing some improvement and showing a uniformity through that period of time. One did have rather poor standards of delivery and one also had fluctuating achievements. They have still got a long way to go with that but it is uniform and better.

275. Presumably the improvement would be greater and the rate of improvement faster if the rate of investment were greater about which you are going to make representations? Would you agree with that?

(*Mr Morgan.*) I do not think I would. We are talking about investment to recover the defects of the past; it is maintenance that has been slipping. We are talking about completion of mechanisation, a programme that was started a long time ago which is still only halfway completed, and it is necessary that considerable sums should be spent to finish that as quickly as possible. But that programme itself has been either overtaken by other technology or has been modified to such an extent that we are really only holding the line. We are not going forward. Where I think investment will pay off is in the retail side of the Post Office, in counter mechanisation, in refurbishment of post offices, that kind of thing, and there is a certain amount of investment, not of a capital nature, in the launching of new projects, which is fairly vital to the Post Office. I think the bulk of the investment is for putting the machine in good trim and, as I put it, holding the line. I do not think it is carrying it forward, giving a new level of achievement.

Mr Maxwell-Hyslop

276. Just before we leave the financial section, have you any views on the some-

¹ See p 64

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what obscure question of the Post Office Reserve Fund? When we took evidence from the Minister last week it became clear that this was as obscure to him as it was to us. Apart from the actual payments by the Post Office to Government, the reserves and EFL, if you like to put it that way, there is also money salted away apparently in this enormous reserve fund and it is not quite clear whether it has any income or whether the Post Office conducts itself in a way that no business would, that is to say it goes out and borrows money from banks at a high rate of interest when it already has a couple of hundred million pounds on deposit. It seems a somewhat peculiar way of running a business. Is this an aspect of the Post Office finances which has attracted your attention at any stage?

(*Mr Morgan.*) Yes, Chairman. If we go back to the question I was commenting on a little while ago of running the Post Office finances in discrete annual periods, to which we will in future have attached a negative EFL of £25 million, in the past the Post Office has, like any other business, achieved surpluses on its operations and those surpluses, represented either by surplus profits, by depreciation, special depreciation, or whatever, have been retained in the business and they are shown as a reserve on one side of the balance sheet. This would not of course in normal business be a mere pot of gold. It would be represented by investment in fixed assets, by increasing working capital, or by application between what the other side of the balance sheet requires. Because the Post Office is run under the direction of Government in these discrete financial periods, it means that those reserves cannot be used, the money cannot be carried forward and applied in that way, the reason being that a drawdown from reserves would be regarded by the Government as an application of external funds.

277. Would you continue on this because it is an interesting line of thought: why is the Post Office's own reserve an external fund?

(*Mr Morgan.*) It is regarded as access to external funds because there is no carry-forward from one financial period to another, so once the surplus has been created, once the reserve has been increased at the end of the financial period, the clock stops and the whole thing starts all over again. Then an EFL is fixed and an investment programme is decided and then

the Post Office has to start to earn the money to finance it.

278. What do you see as the function of this reserve? What is the purpose of paying it into the reserve rather than just handing it straight over to the Government openly in the first place?

(*Mr Morgan.*) The Government could, of course, increase its negative EFL to the extent that it absorbed all those reserves, so that surpluses could be taken away in that form and, to some extent, that is what is now going to happen. The reserves I am referring to are not represented by investment in plant, machinery and all those other things; they are represented by investment in Government stock because that is the only place that it could be put and there is—I do not have the figures with me, I am afraid—but a figure of something over £100 million available from such a reserve which any normal business would draw on to finance this programme that we have been talking about. The customer—I speak as the customer—can only be very angry and very disturbed about this because it does mean, in effect, that customers in the past have borne the agony and annoyance of price increases. These price increases, in turn, have thrown up surpluses which cannot then be applied as any ordinary business would apply them to invest in some of the things we have been talking about. We have a programme of £700 million and the Post Office would clearly like it to be more, possibly £800 million. They estimate that they can only create something like £500 million out of their own efforts over the next five years and there are something like over £100 millions going to waste—I do not know if Government stock is regarded as going to waste—somewhere in the reserves of the business.

Mr Hill

279. If we could move on, it has been advocated by your Council that there should be a widening of the differentials between first and second class post. What studies have you carried out to indicate the response of demand to such a widening of the present differentials?

(*Mr Morgan.*) We would have to let you have a paper on that. I am not really able to cover the question adequately. The purpose of the widening is in order to ensure a proper balance in the business's activities, the volume of one stream of mail versus another and it does vary quite considerably.

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We want second class mail obviously to be a service which does represent a price advantage to the customer. If he chooses to use that particular service, he should get some benefit in the price differential for it. Equally, we do not want management to create such a difference that it upsets the balance of their business. It is fairly sensitive to the differential and the position is very much affected, obviously, by the quality of perceptible service achieved by the postal business. What we have done is discuss with them on a number of occasions what is the case for widening it; what would be the effect of so doing, but if you wanted a detailed answer on that question, we would let you have a paper.

Chairman

280. But do you recommend that the differential should be widened by reducing the price of the second class stamps? That would be a very popular move, of course, would it not? It is about time the Post Office started reducing charges, is it not, instead of always putting them up?

(*Mr Morgan.*) I have commented before, Chairman, that I do not think the customer can be insulated against the effects of inflation and with 80 per cent of Postal costs being labour costs, we can see the force of that.

281. Are you suggesting that the first class mail price should be increased? How are you going to widen the differential?

(*Mr Morgan.*) The widening of the differential we are talking about is only to be contemplated, we feel, over a period of time and as part of the tariff change mechanism. We do not think that there would be a case for making a sudden widening or alteration mid-way between, say, two tariff increases. Incidentally, on the question you put about this, about time prices went down, one has to look at this in relation to the general cost of living. The last increase which the postal service imposed was within the movement of the RPI, so there was, as these things are defined, a real reduction in the price. Equally we, as I have said before, achieved a slippage of a month in the imposition of that increase so that there was an increase of 9.3 per cent averaged over a period of 13 months against a movement in the RPI over that same period of something over 12 per cent. That is about the best you can look for in an industry of this kind, that the increases should be less than the cost of living, and clearly as a customer representative,

one would say it was our job to get that margin within the cost of living as widely as we possibly can. Personally, I would hope that the postal management would be able to set a target for themselves of not having annual increases but of having price stability over a much longer period. I think there is a case now, for example, on our view of the financial out-turn next year, for not having another price increase until at least April 1983.

Mr Hill

282. Can I just continue on that theme? You have said a great many words there but logically what you are saying is that in some period the cost of second class post will have to be restrained to widen the differentials. Would that not create a difficulty that the mass of those who use the post would switch to second class post over a period?

(*Mr Morgan.*) If they are totally price-sensitive, yes, but in fact there is plenty of demand for first class mail. A lot of people want to use it and they want the standard of delivery it offers. Second class mail is for a different type of mail.

283. You have covered some of the aspects of my next question on productivity but do you agree with the recommendations of the Monopolies and Mergers Commission Report on the Inner London Letter Post, that important improvements in operating efficiency and reductions in costs could be achieved by simplifying multiple shift working and reducing the amount of overtime. We heard from Mr Dearing the fact that he was perhaps making some progress in the amount of overtime, but what are your views?

(*Mr Morgan.*) Overtime is a big problem in the postal service. At one time I believe it was almost a means by which the workforce might boost its earnings through the artificial creation of overtime.

284. Can you be a little clearer? It has been called cutting up the cake.

(*Mr Morgan.*) Old Spanish customs are said to apply to quite a large extent.

285. Those are or were what?

(*Mr Morgan.*) The Inner London service was bad. It received a great deal of criticism, of course, and ultimately the postal management did endeavour to tackle this problem by the introduction of a work improvement programme, which was essen-

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tially a programme designed to reduce the number of hours worked overtime or whatever and to share the benefit of that with the workforce on a 70/30 basis. It has achieved some considerable success and it is one of the main reasons why we get a better standard of mail delivery now on a more uniform basis.

286. I am not sure if you are or were formerly a civil servant because you skated very cleverly around avoiding my point on some of the bad working practices of the past that may still be in existence which do create an amount of overtime. I wonder whether any studies have been done by your Council of specific points such as the Monopolies and Mergers Commission Report would obviously have detailed?

(*Mr Morgan.*) I am not a civil servant and I have not been a civil servant. We have carried out no studies on this subject.

Mr McNally

287. Earlier you said that the Post Office should get out and get more business and more volume and if they are going to be investing in capital equipment, that makes sense but looking forward we face a situation where some aspects of the postal monopoly is going to be broken; we have a very aggressive campaign by British Telecom, both in terms of price and in other ways, to get business. Do you see a growing market there or is the postal service going to be in slow retreat over the next decade or so? What do you see as the future for the service? For example, do you see them winning a volume level that is found in the American postal service and how would they go about it?

(*Mr Morgan.*) The traditional usage of the postal service must be under some pressure by the technologies of telecommunications and so on, but so far it seems to have held out quite well and I would have thought that will last for quite a long time yet. The letter will remain as a prime means of communication. The argument runs that it will tend to tail off or reduce somewhat within a decade. So far it has held up remarkably well and there is no great evidence that that is happening, but it is a matter that can only be assessed as time goes by. To rely on that would be a mistake on the part of postal management and they must find, therefore, alternative users. The efforts they are making are clearly to promote letter communication, either of a social nature or the use of the mail as a form

of advertising. Direct mail advertising and direct mail retailing is a thing that has tended to develop and come somewhat into its own. It is partly a feature of energy costs. People, if they can shop through the pages of the Sunday papers, will tend to do that, at least to an increasing extent, rather than make expensive journeys into Central London, for example. That is not a thing that the Post Office can simply accept as a kind of bonus; it has to work hard to develop that and to provide services to mail order houses, to direct mail advertisers, which will match the requirements of those people, and it is doing quite a lot of work to do that.

288. You are satisfied that they are trying hard enough in that area?

(*Mr Morgan.*) I am satisfied that they are trying hard.

289. In your paper you actually divest yourself of responsibilities, which is rather unusual for any public body. You said that you thought that where the monopoly was broken you could now safely leave it to market forces in terms of pricing. You stand by that in public, do you?

(*Mr Morgan.*) It is a very simple statement, and perhaps a little over-simple. If there is any cross-relationship in which customers are affected outside the monopoly sought, clearly we have to have some cognisance of it. The parcel service is an example. There is quite a lot of monopoly still there, effective monopoly. We have said that we would not have the same surveillance of that particular service that we have, say, of the letter service; we want to know what is going on and what the postal management is doing, but we feel reliance on the competition of the marketplace is the prime sanction against them rather than our surveillance. So to summarise, yes, I stand by it. It is a statement which has to be taken somewhat in context, though.

Mr Maxwell-Hyslop

290. On page 5¹ of your memorandum to us, you talk about the establishment of a customer audit. Would you share with us your thoughts on what exactly you mean and how you have in mind that this should be done?

(*Mr Morgan.*) Yes. It is a thought very much dear to the hearts of the Council,

¹ See p 66

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[Mr Maxwell-Hyslop *Contd.*]

particularly to myself. We have generally made our case through reports on particular changes or developments within the postal service and these are usually tariff changes so we have a one-off exercise relating to a particular and narrow aspect of postal management. We feel it would be better if there were a process of more constant surveillance and more constant reporting so that we are talking about a formal exchange covering the conduct of the business over a specific period. We would suggest the financial year as that period, because the figures should be available and if the audit is conducted after the close of that period, there can be no argument about opening up the books or any interpretation of fact because we are not dealing with sensitive information; we are dealing with something that is in the past.

291. Who do you see carrying out the audit?

(*Mr Morgan.*) The Council.

292. POUNC?

(*Mr Morgan.*) Yes.

293. What would you need by way of personnel and equipment in order to do what you have in mind?

(*Mr Morgan.*) The augmented senior staff I have talked about supplemented by, as necessary, technical consultants. I am speaking there of accountants, lawyers and possibly technicians, but we are a lay Council; we speak for the customer and we must be very careful not to be doing technical second-guessing of that kind.

294. Have you done any broad costing of this?

(*Mr Morgan.*) Yes, we floated it in our tariff report number 24 and got something of a response from the Department of Industry and have been discussing it with the businesses (Postal and Telecoms) subsequently. The response has been a little guarded by both parties, for reasons which they have made public on other occasions. That is, they are subject to a great deal of monitoring, probing and auditing and to put another audit into the picture, they feel, might be excessive for no great benefit.

295. What was your actual figure for the cost of this, that you had in mind?

(*Mr Morgan.*) I would expect it to be contained within the cost of the Council.

296. Within the present quarter of a million?

(*Mr Morgan.*) Yes. I am suggesting this is a process which would substitute, to some extent, the activities of the Council at the moment and which would make them much more effective. The way it would go, if I could take a moment over this, is that we would cover in the audit certain set items each year. This would be the framework but clearly there would be other matters, perhaps more important, which would be taken out in each audit for examination. The set items would clearly be quality of service—and here I am talking not only of the national figures but regional and monthly figures, so that one could see what happened and for what reason in terms of mail delivery. Clearly one would wish to cover prices, the movement of prices over the year and as a longer term, trends. In effect, that was the quality of service the customer got; how much he paid for it and was he getting value for money. There we would have comparisons with the RPI but I think other comparisons might be useful—that is, what other types of goods of a similar kind are costing. The pricing policy, the differential question, could well be part of it as a standard item. Productivity, both mail productivity and counter productivity, would be a large area of discussion. The movement of costs, so that the customer could take judgement over how the Post Office had spent its money and the effect, for example, of a wage award, the effect of non-mechanisation or mechanisation, the investment programme. The changes of service. Sometimes new services are introduced; sometimes services have been withdrawn in the past and customers shall have the right to probe that. I think it would be necessary to make projections for the future—that is, the future financial position—so that the customer could assess what is coming to them.

297. When we come on to assessment, I think it would be interesting to the Committee to know what assessment you have made as to the effect on incomes of sub-post-masters and therefore the viability of sub-post offices of the recent changes in paying social security benefits. Have you done a study in any depth on that?

(*Mr Morgan.*) No. We took the view that relationships between sub-post offices and postal management was a management question. They use something over 20,000 sub-post offices on an agency basis as part

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[Continued]

[Mr Maxwell-Hyslop *Contd.*]

of their retail network. We were concerned obviously with the possibility of closures of sub-post offices and we negotiated a code covering how such closures, if there were any, should be viewed by postal management. In the event, there have been very few closures and most of those have been because no one could be found to take on the sub-post mastership.

298. Should you not add the words "because nobody could be found to take on the post mastership at the revenue which it yields under the present arrangements"?

(*Mr Morgan.*) Yes, I would say that is implicit in that statement.

299. Because the Post Office takes a large slice of the revenue generated by the sub-post masters and you do not regard that as a matter for POUNC to look at, do you, bearing in mind that the quality of service to any locality depends, to a large extent, on having a Post Office there?

(*Mr Morgan.*) The provision of service through the sub-post offices takes account of locality; i.e., the nearest Crown Office, the nearest sub-post office, and that kind of thing. It is asking rather a lot for a Council of this kind, which as I have said is directed centrally, to take a view over what are essentially individual, local issues. The work there is better done through the POACs, through local authorities, through CABs and local bodies.

300. Agreed in the case of local events but since the viability of the whole system depends, among other things, on the agency arrangements negotiated by the Post Office and by the splitting of the income arising from that as between the Post Office centrally and the people who do the work, the sub-post masters, ought not that central element in the equation to be within your very definite focus of attention, because of the consequences if it goes wrong?

(*Mr Morgan.*) In so far as the consequences are nationally serious, yes. We do not see any evidence of that at the moment. About 190 sub-post offices have been closed out of something over 20,000, so that we do not have the impression that the national scene is endangered by these developments.

301. Would you expect already to have seen that when the changes in terms of social security benefits have only had a month?

(*Mr Morgan.*) Obviously this will be a matter which will require monitoring as time elapses. One also is aware, though, that quite considerable efforts are being made to develop agency business to supplement the income of the sub-post masters and a new split is, I believe, currently under negotiation to cover the arrangements between them and the postal management.

Mr Stevens

302. On a point rather more of principle about sub-post offices, the way in which they are set up makes it very difficult and very expensive for the Post Office to close them if the customer demand ceases to be sufficient to keep them going. In Inner London, for instance, where the population has fallen a million in the last decade, there are many areas where the pattern of population has changed and in my own constituency in Fulham, I have five sub-post offices fairly close together and a very large area where the population is growing, particularly among old people because of the flats being built and no sub-post office at all. The Post Office is reluctant to close any of the five because of the costs and the shindig if that were done. Should not the arrangements for opening and closing sub-post offices be more flexible so that as population changes the locations for the Post Office change in response?

(*Mr Morgan.*) Yes. I think it is precisely this element of flexibility which I regard as a management decision. Management is not addressing itself solely to the financial pluses and minuses of having sub-post offices. It is aware of the social duty and I think that is shown in the code it has negotiated. It is also true that they do make minimum payments to keep some sub-post offices going. I believe something like 3,000 such payments were made last year. They are in a difficulty about this. I think it is extremely difficult to have an applicable, universal code which says how many sub-post offices cover what head of population.

303. Would you regard the details and the principles under which the sub-post offices are opened or closed or moved as coming within the area of interest for POUNC?

(*Mr Morgan.*) I do not think it should be excluded but I do not think we can readily look at it except as management addressing itself to a national problem. Where local problems are involved, other

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[Continued]

[Mr Stevens *Contd.*]

people are in a better position to cover them.

304. I know you cannot get involved in detailed, local problems but this a way of conducting a major part of the operation, which appears to me to have become somewhat ossified and which, in the interests of the customers, needs to be decoagulated. I would have thought that was an area that POUNC should have concerned itself with, not the details, but simply the central principle.

(*Mr Morgan.*) Yes, I agree with that statement. The fact that we negotiated a code covering closures—

305. You did?

(*Mr Morgan.*) Yes, is one evidence of that.

306. Mr Maxwell-Hyslop was talking about customers. Is POUNC at all concerned with the different sort of customer—that is to say, overseas governments—who may wish to purchase from the Post Office? They certainly purchase from the French Post Office complete installations for their country. Would that be the kind of customer which you would have any interest in?

(*Mr Morgan.*) Not directly.

Chairman

307. Mr Morgan, when you are giving us the paper you promised us, would you

also include up to date details about the representations received by your Council about the provision of sub-post offices? Your report which we have before us is nearly ten months old now, I think for 1980/81. Would you update it to the latest convenient month on the number of representations you have received, and would you also tell us the result of your representations, whether you were successful in getting post offices reprieved or whether you were successful in getting new sub-post offices? It would help us in our considerations.

(*Mr Morgan.*) Yes, indeed.

308. That seems to bring us to the end of the specific questions we wish to ask you, unless there is anything specifically you yourself would like to say of a general nature?

(*Mr Morgan.*) I would simply like to emphasise what I have said about the customer audit and perhaps that could also form the subject of another paper, time being rather short. Perhaps it would be better to cover that in that form. It is a matter of great importance to us and we feel a response should come both from Government and from businesses.

(Chairman.) Thank you. It remains for me, on behalf of my colleagues, to thank you and your colleagues who accompany you this morning for your attendances upon us and the manner in which you have answered our questions.

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[Continued]

POST OFFICE REPORTING AND ACCOUNTABILITY**Memorandum submitted by the Mail Users' Association (PO8)****Summary of recommendations**

- 1 Introduction
- 2 The Existing System
- 3 Planning
- 4 The Need for Accountability
- 5 A System of Accountability
- 6 The Post Office Users' National Council
- 7 Conclusions

Appendices

Productivity Indices

Letter Mechanisation Costings

Value for Money Index

Mails Operations — Cost Allocations

Prices Information Required in Annual Report and Accounts

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Summary of Recommendations

1. The Post Office should explain the method used to compile its tariff index (para 2.2)
2. Quality of Service statistics should take account of changing service objectives (para 2.3)
3. A mails productivity index should be devised and published (para 2.4)
4. Performance indices for counter work should be devised and published (para 2.5)
5. The Post Office should produce standard interim reports and quarterly statements (para 2.6)
6. The Post Office should be more open about its planning (para 3.1)
7. Investment should be made available to bring the mechanisation programme to a speedy conclusion (para 3.3)
8. Post Office management should concentrate on producing objective guides to performance instead of grumbling about producing evidence for the existing monitoring arrangements (para 4.3)
9. A system of accountability should be devised incorporating indices on prices, quality of service, value for money, counter productivity, counter quality of service, mails productivity, and the cost allocations to the main aspects of mails operations
10. Summaries of price changes should be re-introduced into the annual reports and accounts.
11. The Post Office Users' National Council should be replaced by a Rate and Service Commission
12. There should be more public accountability in the appointments to the POUNC and its successor body.

1. Introduction

1.1 This paper is concerned with the means by which the Post Office is accountable. The problem has received much attention: the Select Committee on Nationalised Industries dealt with it in 1966/67; subsequently there have been other reports by the Select Committee specifically, that dealing with Consumers of Nationalised Industries and the Post Offices Letter Services; in addition there has been the report of the Post Office Review Committee, the Government's White Paper response, and the NEDO study. The common theme running through them on the subject of nationalised industries and the Post Office in particular is that the reporting procedures are inadequate, and provide no ready guide on performance and national benefits.

1.2 The accountability of the Post Office is of particular importance as it has substantial monopolies. Although the recent Telecommunications Act reduced the scope of the

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monopoly for all practical purposes the British Post Office still has a monopoly over letter traffic. In addition the Post Office still has a substantial monopoly, part statutory, part in practice over overseas mails items. The one area of supposed competition, parcels has wide areas where in practical terms, although the Post Office has no statutory monopoly, it is the only carrier available, for example, any organisation requiring a national distribution of small packages will have to use the Post Office for a large proportion of the items. It is noteworthy that in the private sector where one supplier had obtained 64 per cent of the market (in 1979) then a monopoly position would be considered to exist. The withdrawal of British Rail and National Carriers from some areas of the parcels business has further increased the Post Office's dominance of the parcels market to such an extent that organisations requiring national distribution have little alternative but to use the Post Office particularly if posting packages in a weight of around 1 or 2 kgs, and the general public have virtually no alternative at all to the Post Office. The only countervailing power an organisation has is to use its own carriers for main centre distribution, or use one of the few fleets offering home delivery services. However, these options are usually open to only large organisations.

1.3 The picture is much the same as far as agency services are concerned. The Government can consider alternative means of distribution for some of its services but once the Post Office has been selected and given an agency the public has little alternative but to use it. Whereas competition at the margin is welcome and competition from other means of transmission such as electronics and telephony provides a competitive spur the bulk of the services provided by the Post Office are those in which it is in the position of a monopoly or near monopoly supplier. It is for this reason that the stewardship of Parliament is particularly important.

2. The Existing System

2.1 Under the existing system the Post Office produces a formal annual report and accounts which contain supplementary statements which are rather more valuable than the information contained in the report and accounts itself. The supplementary statements have information on service and financial performance; however they do have a number of deficiencies. The supplementary statements consist of what the Post Office chooses to provide and items can be and have been dropped at its convenience, for example in 1979/80 the Postal Business dropped its tariff summaries — the Committee will recollect that in that year there were two large price rises. Thus the usefulness of the information in the supplementary statements has been reduced because unless individuals reading the supplementary statements have further documents available containing the price increases they cannot analyse price trends or relate some of the figures on quality of service to prices.

2.2 The Post Office also produces a tariff index in its annual report and accounts but it has never satisfactorily explained the basis on which this index is prepared. The method adopted by the Post Office has the effect of tending to depress its price index when there are tariff increases followed by switching of first class traffic to second class as it is weighted by traffic volumes. Similarly the index is depressed by increases in higher weight steps in parcels and packets which have tended to reduce the amount of traffic carried in these weight steps. MUA recognises that devising a prices index is a complex matter and that there is no perfect system. However, it is incumbent on the Post Office to explain the method by which its index is constructed and to point out some of the distortions which occur. These are considerable for if the price of a 1st class letter had moved in line with the index published by the Post Office the current price of a 1st class letter would have been 12p (instead of 14p) and for a 2nd class letter 10p (instead of 10½p) before the increases on 1 February 1982.

2.3 The Quality of Service index gives rise to similar problems. There have been so many changes in service standards that it is difficult to obtain a view as to how quality of service has varied over time. The index published by the Post Office relates to due course delivery but the problem is that the Post Office has often changed its definition of due course. Thus a decade or 15 years ago when the Post Office failed to hit its quality of service targets it was

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actually providing a better service than on the occasions when it hits the targets today. The quality of service statistics do not take into account variations in delivery time. Some variations are inevitable, but the index does not reflect the occasions when two deliveries are reduced to one, or when mail is delivered in the afternoon rather than the morning.

2.4 The distribution and presentation of information on mails productivity is unsatisfactory. There is no figure given by way of a productivity index although the information is readily available. Again the Post Office Review Committee did a considerable amount of work on this and produced some figures (Appendix 1) from the information provided by the Post Office. Detailed use of the Post Office Report and Accounts supplementary statements can also result in the teasing out of information on productivity. However, the Association does not regard it reasonable to expect either Members of Parliament or members of the general public to spend their time wading through a variety of Post Office documents and supplementary statements to relate one figure with another.

2.5 On counter work there is no information relating to performance in the supplementary statements. The only data available is the number of transactions made and the value of transactions. In itself this information is of little worth. An analyst can arrive at the figure for the total value of transactions, index that to obtain a trend in real prices and obtain trend for the value of transactions per member of staff. But results are crude as the number of staff actually employed on counter work are not given and there is no accurate method of dividing the work between such Post Offices and Crown Offices. The Post Office does have information available on productivity and counter services which it could produce without undue expense. The information gathered in the Post Office's revised approach to counter staffing produces a great deal of data on productivity and service for internal use which could be summarised to produce quality of service and productivity indices for counter work. The Post Office has conducted surveys into customer waiting times and these could also be produced in index form, rather like Telecom's index on operator response times.

2.6 The Post Office does not produce standard interim reports and quarterly statements. Every major firm in the UK produces interim statements for its shareholders giving key information such as income, profit and loss, and a guide to trading prospects. Most large reputable corporations also produce quarterly figures of income and expenditure. The Post Office has such information available and should find it easier to provide it than most other firms as it is a cash business. Apart from a few very large contracts its services are paid for in advance or are subject to well regulated systems with a high degree of certainty—for instance distributing social security payments has none of the commercial problems of selling clothes or food. Moreover as a check on its financial information the Post Office does take counts on mail traffic which accounts for 57 per cent of its income. (Each night the meters on the stamp cancelling machines are read which provides a guide to traffic trends). The Post Office itself has revealed that unaudited information can be available very rapidly by the recent disclosure of the very large profit expected for the current year. In the early 1970s the Post Office undertook to provide a large amount of quarterly information to the Department of Industry. This could be made public as little of it is confidential. In the past the Post Office's financial performance has fluctuated widely within the space of a few months. In 1975 there was the extra price increase in September; in 1979, within months of announcing a price freeze (which MUA pointed out at the time was unsound) the finances collapsed. This year, the opposite has occurred, a few months after justifying price increases on the ground that it needed to hit financial targets the Post Office has announced it is over target. Similarly in 1976 its profit and loss account veered round to overshoot its target by £61 million—overshooting targets is not a matter for congratulations as the money is coming from customers and in such circumstances postal charges can become, in effect, a form of tax.

3. Planning

3.1 The Post Office in the past has been reticent about its planning. The implementation of the mechanisation programme provides a useful example of the weaknesses engendered by

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secrecy and of the dangers of not having an adequate system of public accountability. The MUA emphasises that it fully supports the Post Office management and Unions in their desire to see the programme implemented as quickly as possible. However, the fact remains that for 15 years at least the mechanisation programme was handled very badly and insufficient checks were made on performance, for example, in its evidence to the 1966/67 evidence to the Select Committee on Nationalised Industries the Post Office produced some costings which showed that the mechanisation programme costed in with post code use at low levels. It also produced a programme which showed that mechanisation of major offices was to be completed by 1970 and apparently it expressed confidence that the post code use would be successful in that 70% of mail would be carrying codes by 1970. In 1980 the majority of the programme was still to be carried out and post code use was languishing at about 50 per cent.

3.2 The programme has now joined that category of public sector projects which are never going to recover their costs. Mechanisation is only financially viable if previous investment and costs are regarded as sunk costs. MUA regards this as a sensible course in the circumstances, but considers with proper accountability the problems would have been less likely to occur. (Costings of mechanisation are at Appendix 2).

3.3 In fairness to the existing management the Association places on record its view that it supports them in their efforts to introduce a modified programme and as far as it can tell believes they are following a sensible course. But the point at issue is that the debacle arose without the public being aware of what was going on and without any proper reporting to Parliament at all. What the Association is looking for is a system whereby future major projects will be tested and scrutinised. For the present, given that management are doing their best to salvage the scheme MUA considers that the necessary investment should be made available to enable the project to be completed rapidly. The longer the delays the higher the costs and the fewer the benefits. The continual delays in mechanisation create difficulties for users in their planning as they cannot judge when address files and mailing lists should be adapted to a post code system. This uncertainty is to the detriment of the Post Office as it results in a lower level of use of the post code than would otherwise be the case.

4. *The Need for Accountability*

4.1 The Association considers that it is possible to make the Post Office more accountable by using information which is readily available within the organisation and often already provided to the Department of Industry. The objective, as we see it, is to obtain a system. The problem with present arrangements is that the Post Office rather than the public's representatives decides what information it should make available and when it should do so. In the recent past when it has performed badly the Post Office has disappeared behind a smoke screen of excuses and highly selected statistics. This has had the unfortunate consequence of ossifying management and staff attitudes and making the organisation unaware of how bad its performance has been over the last decade and a half. It took combined efforts of the Select Committee, the Post Office Review Committee and the Monopolies and Mergers Commission, plus a continual campaign by the Mail Users' Association to get the point across to Post Office Management that not only did productivity need improving but that it could be improved.

4.2 Recently some of the newer management, particularly in London, have tackled the problem with the requisite energy and had started producing results. This is welcome but the question is why was such a dramatic slide in productivity allowed to happen in the first place with so little public knowledge? The MUA submits that if productivity indices had been available in the Post Office Report and Accounts the exposure of the record would have been sufficient to have brought the necessary pressure to bear on management to have halted the process. Even now the point that indices and guides of performance provide an aid to management seems to be insufficiently appreciated within the Post Office itself and it sometimes seems too concerned to produce public relations coups rather than a body of information which sets out its record objectively.

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4.3 In referring to monitoring arrangements the Post Office's memoranda stated that they "require a considerable degree of top level time . . . sometimes to the detriment of time and energy needed for the improvement of industry." This comment, and the attitude of mind it betrays is unacceptable to the MUA. If the Post Office had produced for a system of objective guides to performance then its officials would be able to spend less time on ad hoc inquiries, and such inquiries as are held would be able to concentrate more on the policy objectives rather than having to spend time trying to assess postal performance.

5. *System of Accountability*

5.1 The first step is to produce and publish a series of indices and one other piece of key information in the annual reports and accounts:

1. a price index thoroughly explained
2. a quality of service index with allowances for changes in standards of service
3. an index correlating quality of service and price known as a "value for money index" (such an index on an experimental basis was produced in the Postal Business 1969-79) (Appendix 3)
4. an index of counter productivity such as that given to the Post Office Review Committee
5. an index of counter quality of service expressed in terms of average waiting time per transaction
6. a breakdown of the percentage of costs incurred on the main aspects of mails operations as given to the Select Committee in 1966/67 (Appendix 4)
7. a mails productivity index showing the average throughput per unit of work

5.2 The Association stresses that the latter will not involve costly or time consuming extra work. The information is readily available in the Post Office and the mathematics are simple as traffic is brought to common units in the Post Office's annual returns of work of staff. (The figures provided at the annual count are adjusted by a series of multipliers. Thus parcels, packets, registered and recorded delivery items can be related to basic letters and a total work figure obtains). Equally figures are available on the nature of the hours worked however, once the total traffic is known it can be divided either by the costs of handling it or by adjusted staff hour figure. The information for the other indices is also readily available within the Post Office as part of its management information system.

5.3 In the report and accounts the summary of major price changes on one page should be reintroduced, an example of the information required is given at Appendix 5. This cannot be disputed on cost ground as the Post Office produces several square feet of photographs in its annual reports — a notable feature of its annual report and accounts has been that as the amount of space devoted to photographs has gone up the amount of space given to useful information has gone down.

5.4 In addition to the annual report and accounts it is necessary as to know the Post Office is performing in the course of the year. It would be unreasonable to expect all the indices to be produced every quarter. However, it is noticeable that the Post Office's financial performance has fluctuated quite suddenly within the course of a year, and users should be able to judge for themselves how Post Office finances stand.

5.5 In 1979 customers were confronted with the prospect of a quite unexpected loss after senior management had issued rosy statements earlier in the year and had actually announced a price freeze. Similarly in 1975 postal prices were suddenly increased by 100% and the following year although the Postal business made a loss its declared target was to make a loss of £70 million and the loss was actually £9 million. Whatever the reasons for these fluctuations they do show clearly that there is a need for the regular publication of key financial information. The MUA's suggestion is that within four weeks after the end of any quarter year the Post Office should produce an unaudited statement of revenue, expenditure, and profit or loss. This would go along side its already published quality of service statistics. In addition the mails productivity index should be published quarterly. This information produced would give not only Members of Parliament and the more sophisticated of the Post Office bulk users a useful guide to performance it would also give the public a guide while bringing home to Post Office management and staff at all levels

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how well they are doing. If these indicators were produced in this form it should greatly assist the Select Committee and Members of Parliament on the floors of the House to keep track of postal performance and enhance their role of stewardship.

6. Post Office Users' National Council

6.1 The restructuring of the Post Office Users National Council is under consideration. MUA has consistently maintained that the Users National Council system is inadequate for the work it has to do. Chiefly because it lacks professionalism, and its work as a complaints bureau operates to the detriment of its policy function. An alternative to the Users Council System the MUA would like to see a Rate and Service Commission set up. This could be staffed by a few professional people — probably no more than half a dozen, and by a much smaller council probably ten or twelve.

6.2 The task of the Commission would be to maintain a watching brief over Post Office performance and handle tariff reference. Whereas the Association recognises that under the voluntary system the amateur members of the Users National Council have from time to time done some valuable work and that their civil service staff again have produced some useful exercises, its organisation suffers from lack of continuity. In a nut shell it has been predominantly useful with fighting the fires — often after the building has been burnt down — rather than with their prevention. The current chairman has upgraded the policy input of POUNC, and this highlights the weaknesses of the selection system — he was informed by the then Minister of Prices and Consumer protection that his term of office was not to be renewed. This was done without any consultation of users or their representatives. MUA would like to see a more public system of appointment to the POUNC's successor body, and if the civil service remains involved in appointments the short list should be submitted to a Parliamentary Committee for final decisions.

7. Conclusions

In conclusion: the Association considers the system of reporting is inadequate and it could be improved simply and without further expense. The system MUA proposes would result in financial savings. Because the system is ad hoc and because the Post Office does not produce an adequate basis for assessing its performance it has been subject to a series of inquiries over the last 15 years. The result of this lack of system and a great deal of probing on the Floor of the Houses of Commons and House of Lords to winkle out information which can provide an inkling as to how the Post Office is performing. A system of quarterly reporting backed up by some meaningful indices in its annual reports and accounts would remove the need for much of this work and enable Parliament to better discharge its role of stewardship on behalf of the Post Office owners — the general public.

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APPENDIX 1

Productivity Indices

(Reproduced from Post Office Review Committee Report)

	<i>Mail volume handled per worker hour 1965-66 = 100</i>	<i>Mail volume index</i>
1965-66	100	100
1966-67	102	100
1967-68	102	100
1968-69	101	99
1969-70	101	99
1970-71*	92	90
1971-72	95	92
1972-73	97	94
1973-74	96	96
1974-75	94	95
1975-76	89	86

* 1971 was the year of the postal strike. It can be noted that the introduction of the two-tier post in September 1968 had no evident effect.

	<i>Administrative labour Cost per unit of business (Index, 1965-66 = 100)</i>	<i>Mails operations labour cost per mail unit</i>
1965-66	100	100
1969-70	206	128
1973-74	443	208
1975-76	822	390

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APPENDIX 2

Mechanisation Costings

Two DCF costings produced by the Post Office in its evidence to the PO Review Committee. The different residual values in 1993/94 and 1995/96 and the lack of any serious adverse impact of the extra payment to staff (which was understated by omitting a lead in payment of £1.15) are noteworthy.

LETTER POST PLAN — NATIONAL COSTING

Total costs and savings, net cash flow and cumulative NPV statement for outturn price national costing dated November 1973 and showing a positive NPV of £30.8 million.

	<i>Total savings (£000's)</i>	<i>Total costs (£000's)</i>	<i>Net cash flow (£000's)</i>	<i>Cumulative PV (£000's)</i>
1973-74	—	1,372.5	-1,372.5	-1,372.5
1974-75	512.8	5,365.5	-4,862.8	-5,546.3
1975-76	1,785.3	7,773.2	-5,987.9	-9,975.6
1976-77	3,259.8	11,395.9	-8,136.1	-15,151.8
1977-78	5,332.1	14,154.7	-8,822.6	-19,979.3
1978-79	8,221.8	14,750.4	-6,523.7	-23,051.8
1979-80	12,307.3	9,587.8	2,720.0	-21,945.6
1980-81	15,758.1	8,968.6	6,789.5	-19,559.6
1981-82	20,146.7	6,241.4	11,905.3	-15,944.0
1982-83	23,548.7	7,273.4	16,275.4	-11,672.7
1983-84	26,837.3	7,817.0	19,020.3	-7,359.1
1984-85	30,069.0	8,104.5	21,964.5	-3,025.7
1985-86	32,702.8	8,573.2	24,129.6	1,115.7
1986-87	35,634.1	9,253.2	26,380.9	5,054.7
1987-88	38,821.3	10,804.4	28,016.9	8,693.9
1988-89	42,231.8	10,836.4	31,345.4	12,235.9
1989-90	45,002.1	13,016.5	32,975.6	15,477.5
1990-91	50,079.4	12,270.5	37,808.9	18,710.8
1991-92	54,517.9	16,048.0	38,469.9	21,572.8
1992-93	59,301.3	18,828.0	40,473.4	24,192.3
1993-94	136,299.0*	18,433.7	117,865.3	30,828.4

* Includes residual value of buildings and equipment.

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[Continued]

LETTER POST PLAN — NATIONAL COSTING

Total costs and savings (including 20p payment to staff), net cash flow and cumulative NPV statement for national costing at 1976 prices dated September 1976 and showing a positive NPV of £24.5 million. (Expression of the figures in these terms takes no account of the benefit which will accrue to mechanisation from the real postal wage increases which are currently predicted to occur during the costing period. All savings shown, except in the final year of the costing period, are in respect of staff.)

Year	Total savings (£000's)	Total costs without UPW payment (£000's)	Cost of 20p UPW payment (£000's)	Total costs (£000's)	Net cash flow (£000's)	Cumulative PV (£000's)
1976-77	940	6,557	1,976	8,533	-7,593	-7,593
1977-78	4,056	10,983	1,976	12,959	-8,903	-15,686
1978-79	6,184	11,155	1,976	13,131	-6,947	-21,427
1979-80	9,069	15,655	1,976	17,631	-8,562	-27,859
1980-81	12,861	14,584	1,976	16,560	-3,699	-30,385
1981-82	15,149	11,215	1,976	13,191	1,958	-29,170
1982-83	16,776	6,528	1,976	8,504	8,272	-24,501
1983-84	17,543	5,324	1,976	7,300	10,243	-19,245
1984-85	18,338	5,049	1,976	7,025	11,313	-13,968
1985-86	18,997	5,472	1,976	7,448	11,549	-9,071
1986-87	19,531	6,010	1,976	7,986	11,545	-4,621
1987-88	19,966	5,390	1,976	7,366	12,600	-205
1988-89	19,968	5,403	1,976	7,379	12,589	3,805
1989-90	19,968	5,403	1,976	7,379	12,589	7,452
1990-91	19,968	7,470	1,976	9,446	10,522	10,222
1991-92	19,968	8,032	1,976	10,008	9,960	12,606
1992-93	19,968	7,098	1,976	9,074	10,894	14,976
1993-94	19,968	5,215	1,976	7,191	12,777	17,503
1994-95	19,968	5,215	1,976	7,191	12,777	19,801
1995-96	38,284*	7,405	1,976	9,381	28,903	24,526

* Includes residual value of buildings and equipment.

A mechanisation costing produced from "The Postal Business — A Study in Public Sector Management" first given to the Post Office Review Committee. The exercise takes into account the full cost of the extra staff payment, administration and R&D costs.

Date	Year	1/1 to end of payments	2/1 to equipment and renting	3/1 to other activities and R and D	4/1 to marketing	5/1 net cash flow	6/1 1973- 1980	7/1 Adjusted cash flow	8/1 Present/ discount factor at 10%	9/1 Total
1962-63	(20-21)	—	0.7	1.04	0.60	(1.74)	1.05	0.58	2.34	45.45
1963-67	01-04	—	0.2	1.21	0.60	(0.91)	1.00	0.62	2.64	18.97
1967-68	05-07	—	0.2	1.22	0.67	(0.89)	1.01	0.63	2.65	18.98
1968-69	08-09	—	0.2	1.23	0.14	(2.41)	1.01	0.63	1.77	12.32
1969-70	10-21	—	0.2	2.44	0.21	(2.97)	0.90	0.48	1.44	21.15
1970-71	02-04	—	0.2	2.55	0.28	(2.30)	1.23	0.68	1.48	21.48
1971-72	04-05	—	0.2	2.15	0.35	(2.70)	1.45	0.73	1.23	21.14
1972-73	05-07	—	0.2	2.06	0.42	(2.94)	1.14	0.71	1.21	21.47
1973-74	06-07	—	0.7	4.31	0.49	(2.13)	1.00	0.60	1.11	21.36
1974-75	01-03	—	0.2	5.30	0.52	(2.03)	—	0.60	0.98	24.39
1975-76	04-05	0.23	12.82	6.99	1.25	(2.03)	—	0.60	0.824	10.98
1976-77	01-02	0.21	9.41	6.39	2.36	(2.03)	—	0.60	0.751	10.40
1977-78	03-05	0.25	9.35	6.39	2.36	(2.03)	—	0.60	0.683	12.25
1978-79	01-04	0.22	9.21	6.29	0.98	(2.03)	—	0.60	0.623	8.97
1979-80	04-05	0.17	8.20	6.29	0.98	(2.03)	—	0.60	0.564	8.96
1980-81	05-06	0.11	8.31	4.76	11.98	(2.03)	—	0.60	0.519	8.07
1981-82	06-07	0.08	9.08	2.91	14.74	(2.03)	—	0.60	0.467	7.32
1982-83	07-08	0.91	8.97	—	1.00	(2.03)	—	0.60	0.424	3.85
1983-84	08-09	0.10	8.94	—	1.00	(2.03)	—	0.60	0.386	4.09
1984-85	09-11	0.92	—	1.00	20.40	(10.45)	—	0.45	0.321	3.88
1985-86	10-12	0.91	—	1.00	21.34	(11.34)	—	0.45	0.289	3.49
1986-87	11-12	0.91	—	1.00	21.34	(11.35)	—	0.45	0.260	3.48
1987-88	12-13	0.91	—	1.00	21.34	(11.35)	—	0.45	0.236	3.11
1988-89	13-14	0.91	—	1.00	21.34	(11.35)	—	0.45	0.218	2.93
1989-90	14-05	0.91	—	1.00	21.34	(11.35)	—	0.45	0.200	2.74
1990-91	05-06	0.91	—	1.00	21.34	(11.35)	—	0.45	0.188	2.54
1991-92	06-07	0.91	—	1.00	21.34	(11.35)	—	0.45	0.176	2.31
1992-93	07-08	0.91	—	1.00	21.34	(11.35)	—	0.45	0.166	2.10
1993-94	08-09	0.91	—	1.00	21.34	(11.35)	—	0.45	0.154	1.94
1994-95	09-10	0.91	—	1.00	21.34	(11.35)	—	0.45	0.148	1.78
1995-96	10-21	0.91	—	1.00	21.34	(11.35)	—	0.45	0.135	1.60
							—	Total	(111.87)	
Revised value of equipment		18.32						0.125	2.27	
Total adjusted for residual value								(0.1436)		

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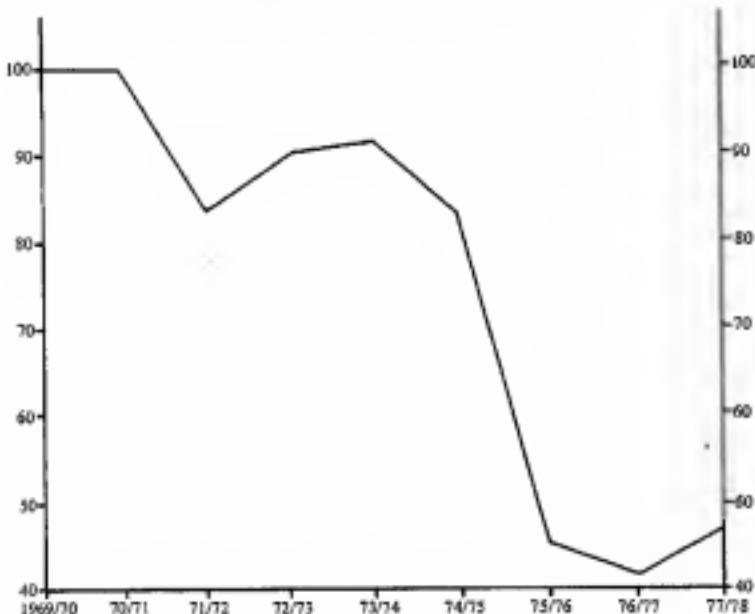
[Continued]

APPENDIX 3

Value for Money Index

This index relates price with quality of service to produce a performance index giving an indication of the national benefits produced by the Post Office's first class mail service. It is extracted from "The Postal Business — A Study In Public Sector Management".

MAIL — FIRST CLASS SERVICE — VALUE FOR MONEY INDEX 1969-70 = 100



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[Continued]

APPENDIX 4

Cost Allocations for Letter Mail Services

<i>Function</i>	<i>Description</i>	<i>% of total costs</i>
1 Counter work	Sales of stamps to customers, administration of postage meter machines, and bulk postings.	7.3
2 Collection	Clearance of street mail boxes, bulk collection from firms' premises.	9.5
3 Facing & stamping	Arranging letters address upwards with stamps in top right-hand corner and cancelling stamps.	3.5
4 Outward sorting sorting	Sorting mail at offices of collection for offices of destination.	17.5
5 Inward sorting sorting	Sorting at offices of destination for delivery.	11.6
6 Station services	Loading and unloading of mail, and transferring mail between trains.	4.7
7 Conveyance	Payments to British Rail for use of trains, cost of Posts' own vehicle fleet, and occasional hiring of outside vehicles.	6.0
8 Preparation	Placing letters into house order and bundling up for delivery.	9.8
9 Delivery	Taking letters to houses — usually on foot in towns and by van in rural areas, and bulk delivery to large firms by motor vehicle.	29.7
10 Mailbags		0.4

TARIFF changes

(Note: This was extracted from the 1977/78 report and account as a matter of policy such information is not now given)

INLAND		OVERSEAS								
		ON 19 JUNE 1977								
		LETTERS								
		POSTAGE								
ITEM	FROM	TO	ITEM	POSTAGE	POSTAGE	POSTAGE	POSTAGE	POSTAGE	POSTAGE	
60g	10p	6p	LETTER	10p	10p	10p	10p	10p	10p	
100g	11p	12p	Zone A	10p	12p	14p	16p	18p	20p	
150g	12p	14p	Zone B	10p	12p	14p	16p	18p	20p	
200g	12p	20p	Zone C	10p	12p	14p	16p	18p	20p	
250g	21p	24p	PAUPIED PAPER/SMALL PARCELS, OVERSEAS DEST.							
300g	22p	26p	Zone A	10p	10p	10p	10p	10p	10p	
400g	23p	28p	Zone B	10p	10p	10p	10p	10p	10p	
450g	24p	30p	Zone C	10p	10p	10p	10p	10p	10p	
500g	25p	34p	OVERSIZED PARCELS							
750g	27p	62p	Zone A	10p	10p	10p	10p	10p	10p	
Each additional			Zone B	10p	10p	10p	10p	10p	10p	
250g	17p	20p	Zone C	10p	10p	10p	10p	10p	10p	
LETTERS AND CLASS SERVICES		POSTCARDS								
ITEM	FROM	TO	POSTCARD							
60g	6p	7p	Zone A	6p						
100g	9p	9.5p	Zone B	6p						
150g	9p	12p	Zone C	10p						
200g	11p	15p	SURFACE MAIL							
250g	14p	15p	LETTERS							
300g	17p	18.5p	POSTAGE	10						
400g	20p	22p	FROM	10p						
450g	20p	24p	TO	10p						
500g	20p	25p	100g	10p						
550g	20p	25p	200g	10p						
600g	20p	25p	300g	10p						
750g (MAX)	27p	34p	400g	10p						
			500g	10p						
			600g	10p						
			750g	10p						

The estimated net yield is a full year from
the above changes is \$2.10.

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MR R FAIRLIE, and
MR M CORBY

[Continued]

Examination of witnesses

MR R FAIRLIE, Deputy Chairman and MR M CORBY, Director, Mail Users' Association, called in and examined

Chairman

309. May I welcome the representatives of the Mail Users' Association to this public sitting of the Industry and Trade Select Committee. May I welcome you, Mr Fairlie, the Deputy Chairman, and Mr Corby, the Director. As you know, the purpose of this inquiry is to ascertain the present financial position and future prospects of the Post Office. We have heard evidence from the Chairman of the Post Office and from the sponsoring Minister, Mr Baker. Today, it is the turn of the critics of the performance of the Post Office. We have just had, as you heard, the Post Office User's National Council and now you come as the Mail Users' Association. What groups of mail users does your organisation represent?

(*Mr Fairlie.*) Our members are almost entirely business users of the mail; that is to say, they are business houses who use the mail either as an essential part of their method of doing business or, in some cases, as simply a normal way of getting correspondence from one business to another but in all cases they are spending fairly substantial sums of money on the mail by comparison with what an individual member of the public would spend, so our concern is dominantly with those services which the Post Office offers that are, of use to business houses.

310. You are suggesting that the bulk mail users are substantially different in their requirements from those of the individuals?

(*Mr Fairlie.*) Not necessarily. Certainly, many of our members have requirements of the service which are not radically different from those of members of the public. The difference mainly is the extent to which their livelihood, if you will, is dependent upon the efficient carrying out of the duties of the Post Office. In other cases, where one is talking about very large users of the mail, yes, their requirements are different from those of the individual user.

311. Pray tell us what your members require of the Post Office.

(*Mr Fairlie.*) They require, above all, a reliable service. The standards to which the service should perform—that is to say,

whether three days is an adequate period of time for delivery of second class mail, whether overnight delivery is a correct standard to be aiming at for first class mail etc.—these can be debatable matters. What is not debatable is that the postal service should be providing a service which is reliable and consistent from period to period and over a prolonged period of time, so that the business user knows what he can actually expect in a very high proportion of the cases of his mail travelling, and that is what is disturbing, when the Post Office fails to meet the standards of performance which it sets itself. The main drawback from the point of view of business is the unreliability which this causes and the sense that one is not sure what has happened to one's mail.

312. In your memorandum which you have sent to us, you are critical, if that is a kind word, or very critical of the productivity record of the Post Office. You say in paragraph 2, sub-paragraph 4, "The distribution and presentation of information on mails productivity is unsatisfactory. There is no figure given by way of productivity index although the information is readily available," and so on and so on in the following paragraphs. Tell us how you could get productivity raised in the Post Office.

(*Mr Fairlie.*) I will offer a few suggestions on this subject and then ask Mr Corby perhaps to elaborate a little further. Mention has already been made in previous evidence to the Committee of actions which the Post Office has taken over the last couple of years to introduce productivity enhancement schemes, if one may put it that way. Mr Morgan was telling the Committee a few minutes ago that the Post Office had introduced a scheme which started in London, whereby the number of hours being worked in the postal service was reduced over a period of time and the savings thereby realised were divided between the workforce and the management to give an inducement for that kind of saving. That is one way in which productivity can be improved. We believe that there is vast room for improvement in that kind of way, even now, even after the improvements that have already been made in the

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MR R FAIRLIE, and
MR M CORBY

[Continued]

[Chairman Contd.]

last two years. Mr Morgan also made mention of the fact that for ten years previously productivity standards had been slipping. We would not suggest that in 1970 productivity in the Post Office was very marvellous but it has declined consistently from then up to some time like 1980 and has made small improvements since then, so the corner has been turned, but we have a very long way to go. We think the only probable way, in this imperfect world we live in, of getting these improvements is by offering incentives to the workforce and obviously through having a commitment by management which we think now exists. The other method is, of course, increasing traffic because where you get increased volumes of traffic, because there is a fairly high proportion of fixed overheads in the Post Office's costs, as traffic increases unit costs tend to fall, so that you get automatic productivity improvement in that way.

313. Have you told Mr Dearing, the Chairman of the Post Office, all the information you have just given us?

(*Mr Corby.*) Frequently.

(*Mr Fairlie.*) We have discussed this point of view with the Post Office on numerous occasions and also in evidence presented to the Carter Review Committee and the Monopolies Commission and other such bodies. We have indeed discussed it directly with Mr Dearing as well.

(*Mr Corby.*) The main thrust of our paper, as you know, is that we think there should be more public accountability as far as the Post Office is concerned and we would regard this as a major plank in any productivity improvement programme because one of the problems which gave rise to the slip in productivity was a continual refusal of management at the time to admit that it was happening. Even as late as 1979 I appeared on a television programme with the Deputy General Secretary of the Post Office UPW, as it then was, and the head of mails operations division and this question of productivity was raised and both of them denied it was an issue—and that was in 1979. So, although we acknowledge and welcome the efforts of Mr Dearing and Mr Cockburn in London and many of the new management we still feel that there is a very considerable problem of education throughout the postal service to make the staff, both management and rank and file, firstly aware of the extent of the productivity slide and, secondly, of the scope for improvement. The scope for improvement

we consider is far larger than has been acknowledged by the Post Office because I am sure you will recollect that in the late 1960s a ripple team programme was started—initially the work was carried out by McKinsey's, they set up the system—and this revealed that the postal business as it then was was startlingly inefficient and that there were a number of ways in which efficiency could be improved, for example, a revised approach to walk plotting. I note again the Post Office do say one of the problems is the increase in the number of addresses, they keep trotting out this poor excuse for the decline of productivity in delivery, however a solution was proposed in the late 1960s. The question is why has this not yet been implemented if they have the scheme? The second area where we think an organisational contribution could be made to the improvement in productivity is really to completely restructure internally the way the Post Office operates. We would like to see a profit concentrated form of management.

Mr Crowther

314. One thing that does puzzle me, you have attached to your memorandum of evidence an appendix, Appendix 1, which sets out some tables of figures related to productivity, the most recent of which is almost six years old. What purpose is supposed to be served by that information?

(*Mr Corby.*) This is actually the information which was available which shows the extent of the decline. If one turns to the Post Office report and accounts supplementary statement, BS1, regrettably there is no productivity index there so one finds it rather difficult to up-date these things. The last published information on profit done in a reasonable way, i.e. other than the crude way of through-put of traffic per man, was produced by the Carter Report; there was a subsequent production for the Monopolies and Mergers Commission for London only. The point we were seeking to emphasize really was we think this information ought to be available more regularly and more up-to-date.

Mr Hill

315. You make several suggestions about increasing the amount and frequency of information so the public has a better grasp of what is going on in the Post Office, especially financial information. Of course we have now heard more information on productivity would be welcome. Are you

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MR R FAIRLIE, and
MR M CORBY

[Continued]

[Mr Hill *Contd.*]

satisfied that all this additional work, paper work in particular, producing this information would be of benefit first of all to the Post Office and, secondly, of benefit to the customers?

(*Mr Fairlie.*) I would like to start to answer that question by presenting a sort of Morton's Fork-type argument, if I may. Either this information already exists within the Post Office, in which case there cannot be a great deal of work involved in publishing it and making the public aware of what is going on, or the information does not presently exist, in which case it damn well ought to, if I may be excused for putting it that way. The information we would like to have published is information which virtually every significantly-sized public company in this country produces, that is to say provide an interim statement of its accounting position and a quarterly report. We think that this is sound business practice. We believe it has been the intention of the government, in setting up the Post Office as an independent corporation, as it did in 1969, to give the Post Office freedom to act like an ordinary commercial concern, within certain limits, and we believe that the Post Office should now, 11 or 12 years later, start behaving like a commercial concern and produce the kind of information that such a concern would take for granted. We do not accept that the production of this kind of information involves a substantial amount of extra work or, if it does, there is something badly wrong and management must need the figures and should have the figures at its disposal which, it may be argued, are not readily available.

(*Mr Corby.*) May I take Mr Fairlie's argument a little further? Not only do we argue this would not involve a great deal of extra work, we argue that once a system is established it would actually reduce the work and it would be helpful to everybody. If, for example, one looks at your own type of enquiries, an awful lot of time has to be spent not discussing the policy of the Post Office, whether the system is right, the allocation of sub-post offices or whatever, but actually getting at fairly basic information. The kind of thing we envisage is something which would free the Post Office Users' National Council, Select Committees or committees of enquiry from asking a lot of detailed questions and to find out what the position of management is so they can get on with the policy and general review position. Once a year or two of change-over

has been made the Post Office management would find this system makes fewer demands on their time.

316. We are grateful for your consideration but we must not cut out too much detail otherwise our work would be destroyed!

(*Mr Corby.*) That is not our intention.

317. What is your assessment of the likely pattern of demand for mail services in the UK over the medium term? How do you expect demand to develop for letter post and for bulk mailing services?

(*Mr Fairlie.*) I listened with some interest to Mr Morgan's answer to what was a broadly similar question, I believe, and I would not depart greatly from his view on this, that is to say, I think we would believe that pressure on the mail services will come largely in the field of private mail, pressure from increased use of telecommunications and so on. Obviously, to some extent, on business mail as well but the shortfall on these areas can, I personally believe, be more than made up by a growth in mail marketing of one sort or another, whether it be direct mail as a form of advertising or whether it be mail order, people shopping through the mail and so on. A member of the Committee made reference to the American experience in this context and it is a perfectly fair comparison to make. The volume of mail per head of the population in America, which I think is probably the correct way of looking at it, is very substantially higher than it is in this country, despite the fact that telecommunications in the United States are very much more advanced than in this country and one would expect competition from telecommunications to be that much more severe. I do not believe that any form of electronic communication can ever do the work of mail marketing or the kind of job which mail marketing can do and I believe there is very great scope for expansion there, not just to defend the present base of the Post Office revenue but actually to expand it.

318. You see an increase in specialist mail services in the private sector, how do you think the Post Office will be able to participate in this upsurge of time-sensitive mail? Would they be effectively and efficiently able to compete in these proposed new schemes in the market place?

(*Mr Corby.*) If we come to direct mail

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MR R FAIRLIE, and
MR M CORBY

[Continued]

[Mr Hill *Contd.*]

they are virtually the only organisation which can do this because it is something where the sender requires distribution to a wide variety of addresses, be they business or private. On things like the household delivery service there is competition from private drop-offs but I think this is really entirely up to the Post Office to pitch the price and keep their quality of service and there is no reason why they should not be able to do this because they do have very considerable economies of scale, they are inputting mail through their system at marginal cost. So I see no fundamental reason why they should not be able to compete successfully.

Chairman

319. When you refer to the United States' postal service is it not the case that their Post Office does in fact get considerable federal grants?

(*Mr Fairlie.*) I am not certain — yes, I believe that is still so. They have been cut down fairly considerably in recent years but it certainly has been the case in the past that the deficit in the American Post Office has been very considerable indeed and I believe it is still existing.

Mr McNally

320. On the question of efficiency, do you think there is clear and enough information from the Post Office accounts of which services make profits, where there is any cross-subsidisation and so on? Would you like some improvement in the way they present the profit or loss on the individual services?

(*Mr Corby.*) Indeed, yes. I think this is one area where the Post Office report and accounts have declined in terms of the quality of information they have given since 1969-70. If one goes back to the report and accounts then they did give a far more comprehensive break-down.

321. The other thing which one has to ask, having read through your rather trenchant memorandum, is, do you think that the Post Office is well managed?

(*Mr Corby.*) Can I say first of all as an organisation we are supporters of the Post Office.

322. With friends like you——!

(*Mr Corby.*) Not at all. We are only advocating these improvements because we wish to see the British Post Office survive and endure as an institution and continue

to provide employment for some 200,000 people. We regard it as a serious issue. We are not making this criticism because we want to see the organisation smashed or broken down, we want to see it improved. The management, in fairness, have flattered us by taking up a number of our ideas. We have not put this criticism forward in any spirit of hostility.

323. It goes back to whether we should ask ourselves is the management, even with all the good advice, capable of running more efficiently this large organisation or is the fault in the quality of the administration within the Post Office?

(*Mr Corby.*) I think the quality of administration throughout the 1970s was pretty bad. I think it is markedly improving and I believe that the existing management, having started a number of policies to secure improvements and produce some results, should be given a reasonable length of time to prove themselves. We think it would be very helpful in that process if they were a little more forthcoming about publishing information showing how they are doing.

324. You were obviously here for the earlier evidence and you will have heard this question of capital investment. Do you feel that there is scope for private money going into the Post Office? Would that be one option to look for, to allow the Post Office, I do not know, a "Buzby Bond" for its investment, something like that?

(*Mr Corby.*) We think anything that can assist the Post Office to move along the mechanisation programme and bring it to a rapid conclusion and up-grade the quality of its buildings which are long overdue for refurbishment would be welcome. We do have doubts about the practicalities of an organisation like the postal business being able to go to the market because of the nature of the business itself. If such a scheme was produced by the Post Office we would have no objection to it and we would welcome it.

Mr Maxwell-Hyslop

325. Do you think the Post Office has gone far enough down the road in offering discounts for bulk business?

(*Mr Fairlie.*) No, Sir. The history of this in the Post Office has always in the past been, if one goes back some years, the bulk discount scheme offered to bulk users by persuading the user to undertake certain activities which in normal circumstances

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[Continued]

[Mr Maxwell-Hyslop *Contd.*]

the Post Office would have to do for itself, like a certain kind of primary sorting of the mail, presentation of the mail in a certain form and so on. This would save the Post Office certain sums of money and part or even conceivably all of those savings the Post Office might be prepared to return to the user in the form of a rebate. For a lot of years, indeed ever since our Association was founded, we have been pressing upon the Post Office the necessity of taking a broader view of the whole question of discounts or rebates or whatever term one wishes to use. In other words, that the Post Office should not simply be attempting to return to the user some proportion of the costs which it saves on the placing of that mail but rather it should regard a discount system as a way of encouraging growth of traffic on the ground that a high proportion of its costs are fixed and marginal extra traffic could be carried by a marginal cost indeed.

326. You do not think they have gone nearly as far as the market will stand?

(*Mr Fairlie.*) No. They have gone a considerable distance; they have set up a professional marketing department in the Post Office which 10 years ago did not exist, not on the sort of scale which it is now, who are doing a very good job in attempting to market postal services in the sort of way any other service organisation would market its service. I do not think they have yet gone far enough; it is perhaps natural they are moving with caution. We think there is a considerable amount of stimulus which could be given to potential posters of mail which the Post Office could give to attract the traffic.

Mr McNally

327. Does your Association welcome the derogation of the monopoly powers of the Post Office? Do you think they will offer the consumer a wider choice and keep the outfit more up-to-date?

(*Mr Corby.*) We think it will help but we regard the derogation of the monopoly as a fairly minor matter and, being realistic about it, we cannot see that there is really much scope for chipping away at the monopoly simply because we cannot see any private organisation getting very excited about the prospects of taking away their parcels or letters all around the country. This is something where one needs a total system and I suspect the nation can really only afford to bear one total system. It is very much a fringe thing.

(*Mr Fairlie.*) There was a much more substantial debate, of course, on the whole issue of the monopoly in Westminster and in Whitehall some little time ago. Our attitude, as an Association, at that time was in broad terms supporting the necessity, as we saw it, for the existence of the postal monopoly for letters. We added to that that there were a number of ways in which the monopoly might be modified at the edges but that in broad terms we felt there had to be a postal monopoly and we wish to make that point very strongly. In the event that view, broadly speaking, has prevailed, not that we were the only people saying it. A certain amount of chipping away at the edges was done, which we are not concerned about. It may have some beneficial effect but certainly the main monopoly should stay.

Chairman

328. Attached to the memorandum you very kindly sent to us, you have, for our convenience, set out a summary of your recommendations. There are twelve in all. Which do you say is the most important of them?

(*Mr Fairlie.*) It is a difficult choice to make but I think undoubtedly we would come down in favour of directing your attention to recommendation number 5 on that same summary, which is that the Post Office should produce standard, interim reports and quarterly statements because we believe that this is a necessary part of conducting in the open a business which the owners, that is all of us here and many millions outside, can have access to and understand what is going on.

Mr Maxwell-Hyslop

329. Is the Official Secrets Act used as a bogus reason for withholding information which would otherwise be available?

(*Mr Fairlie.*) It has not been alleged to me, I do not know about Mr Corby.

(*Mr Corby.*) No. The reasons put forward have always been somewhat strange. On the business of the quarterly reporting the Post Office advanced the view that since some quarters, particularly earlier in the year, tend to make a loss, if they reported this the press would get terribly excited and there would be a great deal of—

330. —red faces?

(*Mr Corby.*)—fuss, which does not seem to us a very strong reason.

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MR R FAIRLIE, and
MR M CORBY

[Continued]

Mr McNally

331. The sharpness of your written evidence and the testimony you have made here is slightly in contrast to POUNC and it makes me feel that POUNC is a cuddly, gentle organisation. I notice your recommendation that it should be replaced. Would you like a much more tough, vigorous group of vigilantes looking at the Post Office?

(*Mr Fairlie.*) I cannot say I would wish to draw quite such a strong contrast. I think that POUNC, particularly its present chairman, Mr Morgan, who is shortly to depart from that post, to my personal regret, has some quite sharp teeth of its own and has produced reports on its own which are sharply critical of the Post Office in the past. I have never disagreed, since Mr Morgan has been in the chair, with any report issued by POUNC. We, as an organisation of commercial users, can perhaps use slightly less diplomatic language than a government-appointed body might consider appropriate and we make no apologies for that. It might also be a matter of personal style to some extent. The last paragraph of our report stated we would like to see a body constituted somewhat differently from the way POUNC is constituted now. We do not find it terribly useful and I think Mr Morgan would be quite inclined to agree with me here — I do not wish to put words in his mouth — we do not find it very useful that a body like POUNC should exist 80 per cent of whose time — to quote a figure Mr Morgan gave us — is taken up in dealing with individual complaints from members of the public. We do not find it useful that that sort of activity should be combined with the issues of public policy which POUNC also has to deal with and does deal with. We feel that from our point of view the kind of body we would like to see would be something we would describe as a type of rate and service commission which would be concerned with policy, how it is run, how does it arrive at the tariff set up it wishes to use, is it being run efficiently and so on. A body which could — to quote again from Mr Morgan who was quoting from Mr Corby in a book published some years ago — conduct an audit of the Post Office and its performance. That is what we would like to see. A lot of the work which POUNC now does we feel is — I do not want to be unduly rude — we regard it as a kind of window-dressing although it may be necessary to have a body to which the man in the street goes when he has a grievance. We do

not feel it is good to mix that kind of issue with the policy problem.

Chairman

332. I notice you put as number 12 that there should be more public accountability in the appointments to POUNC and its successor body. Are you really serious in suggesting that a shortlist of members of POUNC should be submitted to a Parliamentary Committee for final decision? Have you really thought that one through?

(*Mr Corby.*) I confess we have not thought it through a great deal but what we are seeking here is some means of moving out of the great and good area. It is a means of selecting people who just represent the public interest in some way.

333. We have been pursuing that for many years with regard to the appointment of chairmen of nationalised undertakings let alone membership of POUNC, and the decision has always been that a Parliamentary Committee would be the last body to whom you would submit a shortlist of names for anything. Are you really seriously assuming that point?

(*Mr Corby.*) Who should the shortlist be submitted to, one wonders, for review? We think it would be useful for a shortlist of people and their qualifications at some stage to be made public. Then the question is, where or what is the mechanism for doing this.

334. You have a Secretary of State who is involved in the matter. Do you not trust his decisions?

(*Mr Fairlie.*) No, Sir.

335. Why not.

(*Mr Fairlie.*) If I might give a couple of instances of this. POUNC in the course of its life has had two chairmen and only two, the late Lord Peddie, who was the first chairman of the Council and now Mr Morgan. Two more divergent kinds of people in terms of their past history, the way in which they tackle the job, their views of what the job consists of, you could scarcely imagine. It would be highly improper for me to comment on the capacity of either gentleman but simply the appointment first of one and then of the other did not suggest a very coherent or continuous view of the sort of role which POUNC could play or the way in which it should operate. Secondly, it became public knowledge quite recently, certainly to my surprise

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MR R FAIRLIE, and
MR M CORBY

[Continued]

[Chairman Contd.]

and I think to the surprise of the members of the general public who follow the affairs of the Post Office, that Mr Morgan's appointment was not going to be continued and that he would be leaving office fairly soon. This announcement or information became available, so far as I am aware, without any form of consultation with members of POUNC itself or any other users of the Post Office who might be supposed to be interested in the matter. It was, as far as I am aware, a decision of the responsible minister who did herself announce her own resignation not very long afterwards so one was left with the feeling that had the minister's departure taken place by chance a few weeks earlier than it did Mr Morgan might not have been leaving his post.

336. Have you got a remedy for plugging leaks, because if you have they would like to meet you in Washington and in London I think as early as possible?

(*Mr Fairlie.*) I take your point, Sir, but our feeling simply was it has become traditional with POUNC and I believe with other users' councils that the sole discretion rests with the Secretary of State, there is no form of obligation to consult with anybody else, to take advice, to find out what people who know more about the industry than the Secretary of State think about the situation. We think this is wrong.

337. Should a shortlist be submitted to the Mail Users' Association in the first instance?

(*Mr Corby.*) I think not, though we would be delighted to take on the work. If one has a look at the constitutional position we regard the public as quasi-shareholders and Parliament as their elected representatives and this is why we hit on the idea of some form of Parliamentary scrutiny, through a sub-committee of a Select Committee, to undertake this sort of work. It struck us as being the proper constitutional course. We are a quite specific group with a remit from our members to do quite specific tasks. What we think we can say is that we are not satisfied with the existing system.

Mr McNally

338. Are you suggesting Mr Morgan has been removed because he was doing his job too well?

(*Mr Fairlie.*) I have no idea. I regret his being moved and I think part of the point we are making is that we would like to know the reasons for it and that we should be given the reasons and no one has told us.

Chairman

339. Why should you be entitled to it? (*Mr Fairlie.*) As owners of the postal service, as we all are.

(Chairman.) You only wanted to know. This building and its predecessor has been used for many a generation over the centuries to complain about ministerial activities and that is why we are here so do not be afraid of making your suggestions.

Mr Stevens

340. This is a fascinating point and not only for this particular gathering but whenever two or three meet together in the building. If you were the person whose future was in question and if the reason for your contract not being renewed was gross incompetence or worse would you wish that fact to be published by the Secretary of State in the newspapers?

(*Mr Corby.*) I think I would endeavour not to be so grossly incompetent for that situation to arise.

(*Mr Fairlie.*) I am not sure that is an entirely fair answer. I think clearly there are all sorts of considerations that might influence the kind of statements that would be made on an occasion of this kind. I do not think that it is satisfactory that no statement of any kind is made. I do not for a moment believe, incidentally, that Mr Morgan is being removed for incompetence.

341. Nor do we.

(*Mr Fairlie.*) I do not think that was suggested. I think it is quite unsatisfactory that no reason is given.

Chairman

342. A note has been taken of your position. I think that draws us to the end of the specific questions we wish to ask. Is there anything further you would like to say, briefly? If not all that remains for me to do on behalf of my colleagues is to thank you both very much for your attendance this morning, for the papers you submitted to us and the way you have answered our questions.

(*Mr Fairlie.*) Thank you very much for your courtesy.

WEDNESDAY 24 MARCH 1982

Members present:

Mr Stan Crowther	Sir Donald Kaberry in the Chair
Mr James Hill	Mr Ian Mikardo
Mr Robin Maxwell-Hyslop	Mr Martin Stevens

Memorandum by the Post Office Unions' Committee (PO4)

As requested by the Industry and Trade Committee this document sets out the Post Office Unions Committee view of the current financial position and future prospects of the Post Office as well as productivity, relations with the public and competition with the private sector. The Post Office Unions' Committee is a co-ordinating body for the unions representing staff in the Post Office namely CMA, CPSA, SCPS, POEU, SPOE and UCW. The NFSR who represent Subpostmasters is also a constituent. The POUC represents in total nearly 180,000 staff on issues which are processed by mutual consent of all unions.

1 INTRODUCTION

1.1 With the separation of the British Telecom (BT) from the Post Office on 1 October 1981 there followed the need for the trade unions to re-construct the co-ordinating machinery for the unions to have corporate representation of members within the Post Office. The Post Office being Posts and National Girobank. As an extension of the union co-ordinating machinery arrangements are in hand for developing the joint consultative machinery with management to look at all aspects of the Post Office and for the unions to participate in the development of the organisation. Progress has been made towards the introduction of formal joint Committees to deal with specific subjects.

2 FINANCIAL TARGETS

2.1 The Post Office operates to a number of financial targets:

In Posts a 2 per cent per annum profit on turnover after charging interest and historic and supplementary depreciation for the 3 year period 1980-81 to 1982-83.

2.2 In Girobank a two-tier target for the 3 year period 1979-80 to 1981-82, targets for 1982-83 onwards are currently under discussion with Government.

The Post Office also operates to a Real Unit Cost (RUC) objective set in Cmnd 7292, which will have an influence on the revised New Agency Services Agreement.

2.3 We are given to understand that Posts has a satisfactory profit prospect for 1981/2 which in part arises from detailed discussions between the unions and the Post Office to enable inland traffic to be held to roughly the same level as last year despite a severe recession; holding prices for a year; and for improvements to mails productivity together with progress in achieving economies. Girobank also had profitability with a 13 per cent return on net assets. The high rate of growth was held without staff increase. Continuing development of Girobank services is under discussion with the unions. Overseas traffic continues to decline and this is likely to cause problems over staffing at particular offices assigned to deal with this work. We would welcome the opportunity to supplement this paragraph.

3 POSTAL TARIFFS

All in all the quality of service for delivery standards has considerably improved over the last 2 years and this coupled with the improvements in productivity through local incentive

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[Continued]

schemes has achieved a marked effect also on the relations with the customers. Following the Monopolies and Mergers Commission Report a target improvement for London of 15 per cent over 3 years is well on the way, after 2 years, to being achieved. In the field of technology internally for the Post Office a number of major activities are under way including high speed sorting machines, packet sorting machines to handle letter post items not suitable for handling on the present sorting machines, the use of micro processors for management information systems, and a variety of new mechanical handling equipment.

Every working day the Post Office collects over 30 million letters and over 500,000 parcels and delivers to more than 21 million addresses. Some 5 million customers visit 22,000 Post Offices to transact a varied range of business. Income from counter services provided by Posts was almost £400 million last year and estimated at £440 million for this year.

The price increase from 1 February 1982 represented roughly 9.3 per cent overall with a 1½p/1p on basic letter rates. The Post Office agreed to the suggestion from POUNC to defer the date of increase and although this meant a further reduction in revenue the unions have tackled the consequential change in financing in order for the Post Office to meet its commitment. The Post Office expects to achieve its profit target in 1981-82. Throughout the past year the unions have been in regular discussion with the Post Office to contribute to the efforts for economy.

4 PROSPECTS FOR 1982-83

Considerable investment will be necessary over the next few years to achieve the complete mechanisation of major sorting offices and to replace the outdated large sorting offices. This is necessary to the function of the circulation of the letter post plan. Any delay in achieving this programme would have detrimental effects on the service and efficiency and the staff impetus already given to the development of mechanisation. In order to finance the heavy investment programme, the business needs to supplement its current internal sources of funding, but the EFL arrangements do not allow full freedom to do this.

If such restrictions continue this could lead to cuts in:

- a reduction in service and efficiency through the postponement of the completion of the letter mechanisation programme and affecting career prospects of the staff
- a deterioration in already poor accommodation affecting the morale of the staff
- deferral of schemes such as the introduction of automation at Post Office counters with the effects on costs and the consequential problem of difficulty in retaining agency services.

Not only does mechanisation suffer in the shortage of investment capital but this has a serious effect upon development of new services and consequently staff interest in their work.

5 COMPETITION WITH THE PRIVATE SECTOR

The Post Office faces competition even with the monopoly. The monopoly applies only to the basic letter services. The competition already experienced follows from alternative communications available in the electronic field and the relaxation of the monopoly including delivery of own mail, unaddressed advertising material, Christmas cards by charities and premium services. The unions through the machinery of the Joint Marketing Committee have tackled a number of features of extension of Post Office services, in particular the launch of the electronic post, a computer-based service for transmission by electronic means of bulk letter mailings and the development of Intelpost for overseas customers and a domestic inland service. Currently there are changes to extend Datapost services and in the Express Service schemes the introduction of computer controlled facilities in the West Midlands. Parcels services were always operated in a directly competitive market so attempts have been made to increase Post Office's share of traffic. Subject to prevailing conditions and UPU regulations some relaxation is now permitted on size and weight to allow for a further extension of service to customers. The unions have participated to the full in all these schemes.

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6 RELATIONS WITH THE PUBLIC

6.1 The 1,581 Crown Post Office counters transact all types of business and in addition there is a service to the community located in rural and town areas to serve designated sections of the population. These are called Sub-Post Offices.

6.2 There are 20,852 Sub-Post Offices throughout the United Kingdom. These offices vary considerably in size and location (from large offices in city and town centres to very small ones serving rural communities). With a few exceptions (the Minimum Payment Offices) all Sub-Post Offices conduct the same types of transaction and offer a similar post office service to the public, irrespective of the size of office or area served. This is a very important consideration, as the Post Office have a network of offices (Main and Sub-Post Offices) which are situated within reasonable distance of everyone, and they are capable of undertaking most of the services provided by the Post Office.

6.3 In the main the premises in which a Sub-Post Office is housed is owned by the Sub-Postmaster himself. He is responsible for the upkeep of the premises including that part used for Post Office purposes. A Sub-Postmaster's remuneration from the Post Office is dependent upon the amount of business conducted over his post office counter, and in a few instances the amount of mail passing through the Mailwork section of his office. The Minimum Payment Offices referred to above have a guaranteed salary which is currently approximately £1,650 per annum at the lowest.

6.4 It has to be remembered that a Sub-Postmaster's remuneration is gross, out of which he has to meet the expenses of running the Post Office. That is, Rent where applicable; rates (general and water); repairs; decoration; cleaning; heating; lighting; insurances; staff wages; staff refreshments; national insurance for staff; redundancy payments to staff where the situation arises; staff substitution in respect of an assistants' holidays and sick absence etc. This means that his remuneration is reduced by the amount of these expenses.

6.5 A Sub-Postmaster is paid according to the number of units he earns (each transaction carrying a unit value). It does not follow that because a Sub-Postmaster has a large office with a high salary that his reward for personal services is commensurately larger than that of the man with the smallest office. For example, the remuneration at the Minimum Payment Office is approximately £1,650 but the Sub-Postmaster's personal reward would be about £1,400 (84.4% of the gross remuneration). A Sub-Postmaster with a large office earning say about 1,100,000 units (gross salary £24,561) would get a personal salary of £8,228 (33.50 per cent of the gross).

6.6 It is the firm belief of the POUC and indeed the Government itself, that this network of offices should be preserved. To this end they registered objections and mounted a campaign against the proposals to change the method of payment of DHSS benefits. Figures quoted in the First Report on this matter demonstrated the catastrophic effect that withdrawal of such payments would have on Sub-Post Offices.

6.7 It is inevitable that with the passing of time an increasing number of such benefits will cease to be paid over SPSO counters. Obviously there is a need to ensure that additional business is obtained to replace this loss, thereby safeguarding the network.

6.8 We have received many assurances that new work would be forthcoming for post office counters. It is not just the Post Office who have failed to reassure us on this point. The Government promised the sale of North Sea Oil Bonds over Post Office counters which would offset to some extent the loss of DHSS business. In the event the Government cancelled the issue of these bonds, but Sub-Postmasters will still lose the DHSS work. There was some indication to the NFSP that Motor Vehicle Licence work would be forthcoming to relieve the loss of business.

6.9 We should like to amplify the foregoing at an opportunity to supplement this written evidence.

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[Continued]

6.10 The POUC contend that the Post Office are fortunate to have a network of outlets in existence throughout the United Kingdom, in excess of 21,000 Crown and Sub-Offices. This network is a very marketable asset for any business. The Post Office should exploit this capacity to its fullest extent by actively pursuing a policy of Marketing, to make the best use of counters — promoting an image that all Post Offices can undertake a full range of services — and show that no competitor can offer a more convenient or better quality service.

7 DEVELOPMENTS SINCE THE FIRST REPORT

Agreements have been reached with the Post Office to introduce a scheme for the delivery of unaddressed mail. The official term is Household Delivery Service. The scheme continues to attract customers by providing a cheap reliable circular delivery.

The Postal Service operates six days a week from Monday to Saturday and there has been difficulty in the past to recruit staff. The UCW has concluded an agreement nevertheless for a Cadet Force to operate in the business and would be prepared to give oral evidence to provide more information on these points.

8 INDUSTRIAL RELATIONS

The Post Office has to consult a number of watchdogs and the statutory consumer body (POUNC). The unions consider they have been able to make a valuable contribution to the policy of the Post Office and the strength of this is in the development of industrial relations, where the unions, through POUC, participate in much of the formulation of the new services. Taking into account the number of staff employed in the Post Office and the complexities of running the organisation there has been little if any disruption to services attributable to our agreements over working practices.

The Post Office has previously been involved in an experiment with Industrial Democracy at National, Regional and Area level. The Secretary of State in December 1979 terminated the experiment because there was no agreement between the Post Office management and the Trade Unions to continue it. The Post Office Board at the time decided to oppose the continuation of the experiment.

The Imperial College made a study of that experiment. The criticisms expressed in the report need to be examined.

The Post Office Board has not reaffirmed its stated commitment to industrial democracy but in some circumstances this could prove a useful extension of the consultative procedure. The unions are prepared to discuss the matter.

9 CONCLUSION

The unions believe in the future Business Plans of the Posts and National Girobank Board providing there is sufficient resources to carry out these tasks, and competition is fair. We recognise the social role the Post Office has to play and its commitment to the Government financial strategy but these must not produce "strait jackets" to prevent the full development of potentially successful services if they are also to carry Post Office staff support.

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MR MAURICE STYLES, MR ROLAND WORTH
MR FRED BOWERMAN and MR COLIN BAKER

[Continued]

Examination of witnesses

MR MAURICE STYLES, Union of Communications Workers, Chairman, Post Office Unions' Committee, MR ROLAND WORTH, Secretary, MR FRED BOWERMAN, Communications Managers Association and MR COLIN BAKER, National Federation of Sub-Postmasters, Post Office Unions' Committee, called in and examined.

Chairman

343. May I welcome you to this public sitting of the Select Committee on Industry and Trade? Thank you for your memorandum which we have marked PO4. The memorandum tells us the composition of your committee. It seems to consist of a lot of initials. There seems to be a set of six, CMA, CPSA, SCPS, POEU, SPOE and UCW. In addition there is NFSP. That is rather speaking in shorthand, but it is representing all those various unions. In making representations to the Post Office management how do you operate with those member unions? Do you proceed by consensus or by a majority vote?

(*Mr Styles.*) May I first thank you, Chairman, for the opportunity of being able to provide evidence to the committee? My colleagues and I have between us about one hundred years' postal operational experience and we therefore believe that we have a useful input to your committee. I will ask Mr Worth to respond specifically to the question you are posing.

(*Mr Worth.*) I am sorry, Sir, that in our opening paragraph we referred only to initials, but you tend to get familiar with this sort of system in the Post Office once you have the domestic arrangement. May I first explain the composition of the Post Office Unions' Committee and then go on to respond to the invitation to describe how we function? There are seven unions represented by the POUC. In broad terms this represents something like 180,000 members of the staff. The UCW represents something like 155,000 members. Therefore, the bulk of membership from the unions is in the UCW field. These represent postmen, PHGs, that is, postmen higher grade, postal officers, postal assistants and cleaners. The CMA represents the postal executives in the Post Office and these number about 14,000. The Society of Civil and Public Servants, which is not just a domestic Post Office union but has, of course, a civil service link, represents something like 1,200 members of the management grades in Posts and roughly 950 in Girobank. The CPSA have the bulk of their membership in National Girobank of around 4,000. That is the Civil and Public Services Association. We then

come to the engineering segment of representation and we have the POEU who have something like 7,500 postal engineers and the Society of Post Office Executives which represents 770 engineering supervisors. In addition to those six unions we have, of course, as you have referred to, the National Federation of Sub-Postmasters who have something like 20,000 sub-postmasters in membership. The way we function is to operate on the basis solely of consensus. We have no majority voting. If a union wishes to dissent from an issue being processed by the POUC it has every opportunity to do so. The other unions who want to combine then make a consortium outside the POUC, but in the main issues which I represent on behalf of the unions to management in negotiating and presentations are those which have been agreed as a whole by the trade union movement within the Post Office. That is briefly the background to Posts. A similar structure exists in Girobank, but in the main in Girobank a lot of work of the consultative processes is done in National Girobank Centre which is slightly different operationally from the Posts. The National Girobank Centre deals with the day-to-day work processes, utilisation of staff resources, and National Girobank at national level will deal with policy and strategy for National Girobank in general. With the coming perhaps of the two regional offices of Girobank, one at the moment under trial in Birmingham and one shortly to come on stream in Liverpool, there may well be a change of emphasis on our consultative processes. That briefly describes why we are here and the way in which we function outside the representational activity.

344. Do your constituent unions make separate representations on matters affecting their own members, for example, on pay and conditions?

(*Mr Worth.*) Pay is essentially one that is left individually to the trade union representing the members concerned and, in fact, issues that affect solely the members of the grades that are represented by that union can be pursued by that union outside the POUC, but conditions generally speaking

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MR MAURICE STYLES, MR ROLAND WORTH
MR FRED BOWERMAN AND MR COLIN BAKER

[Continued]

[Chairman Contd.]

have an effect to impact on grades other than those that are directly concerned with a particular issue. Therefore, conditions of service are appropriate to be considered through the POUC.

345. Do they make separate representations on other matters than pay and conditions?

(*Mr Worth.*) Yes.

346. For example?

(*Mr Worth.*) There are a number of issues affecting postmen particularly in respect of their walk situation which has no impact on other unions and they have the liberty to process those items which are specifically of concern to them. An enlargement of that can perhaps best be given by the union representative concerned.

(*Mr Styles.*) What should be recognised, I believe, is that matters that are in common covering all services and all grades are best dealt with in a collective manner. As to matters that relate specifically to individual sections, for example, as we sit here today the UCW is in pay negotiations with the Post Office concerning the grades that it represents. It is not accompanied by any other union. It is proceeding with its pay claim separately and individually as is the practice on that kind of question. Equally, of course, this applies to other matters. For example, in the memorandum we refer to postal cadets. That is an exclusive agreement that was directed and negotiated by the union, UCW, with the Post Office meeting the needs and requirements of the basic grade of which we are the sole representative.

Mr Mikardo

347. You mention in paragraph 2 of the memorandum the financial targets which have been set for the Post Office. Are you broadly satisfied with them or have you any special comment to make on them?

(*Mr Styles.*) In respect to the financial targets broadly we work in very good harmony with the Post Office as trade unionists and the record of work that we do is evidence of that. However, there are, of course, differences of view. As trade unions we find it contradictory that our business should be subject to a 2 percent return on turnover and yet at the same time we are aware that the Post Office, while being required to meet commercial criteria, is nevertheless denied the freedom that other commercial enterprises are enabled to have.

Thus, for example, the ability of the Post Office to proceed with capital investment on the scale and at the pace that corresponds to service needs and development is impaired. If I can illustrate, we were pressing more than a decade ago for priority to be given to the completion of the mechanisation programme for Posts mechanisation in order to deal in part with the problem of labour intensity. At that time we had expected that a completion of that programme would be on the agenda by 1983. Capital investment has prevented this. Now the interim target appears to be by 1987, maybe, with a question mark. All this, of course, creates the inability of the service to be able to deliver financial targets. A business ought to know the rules that are required to guide it, but they cannot have double standards imposed upon that business. We would not expect Mr Dearing to be saying that, but we are saying it.

348. You say you are not happy with the 2 per cent turnover criterion. What criterion would you prefer to see in its place?

(*Mr Styles.*) I do not think that is what I actually said. We have no objection to, and recognise the validity of, the 2 per cent turnover, but the way in which external financing limits are laid upon the Post Office in addition in fact makes it an impossible position. For example, this year will be the fifth year that the Post Office is in profit in spite of the most difficult and devastating period of time that we have been required to pass through and yet at the same time the Post Office is being denied to compete freely in the face of competition. Our view is quite clear. We believe that public service has got to be publicly competed, but we ought not to have our hands tied financially behind our backs. We believe that if the criterion is going to be free and open competition, then let it be free and open without hidden inhibitions of the kind that EFL are representing at the moment as far as the Post Office management are concerned.

349. On a related topic, does your committee see it as one of its functions to try and improve productivity in the service and, if so, can you tell us what contribution the committee has been able to make to that objective?

(*Mr Styles.*) In this respect very clearly the membership of UCW being the largest grade has been almost exclusively involved.

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MR FRED BOWERMAN and MR COLIN BAKER

[Continued]

[Mr Mikardo *Contd.*]

Anising from the Monopolies and Mergers Commission and some of the recommendations which have been implemented, there has been no disagreement by any of the unions to those recommendations. Certainly we would want to extend on the base that has already been created. Up to the present time under the improved working method scheme that was the byproduct of the Monopolies and Mergers Commission there are now 762 schemes operating throughout the United Kingdom. They cover 56,000 rank and file staff, that is, postmen and postmen higher grade, and that is about 347 per cent of the total workforce. Out of that exercise already it can be recorded that the Post Office have effected savings that are equivalent to about £16 million. Our view is that we would want an extension of that scheme. Counter clerks, postal officers, have been pressing for some time for a similar productivity scheme, but so far, to date, we have not been able to get movement with the Post Office. We are continuing those negotiations.

350. Do you see the possible introduction or extension of some element of industrial democracy in the Post Office as being a factor that might contribute to raising productivity and, if so, in what direction do you see that operating and what are you doing about it?

(*Mr Worth.*) Our activity in productivity is not confined merely to the IWM and other measures for producing money for our staff. We have been engaged for the last two years in direct negotiations with the Post Office to reduce the time spent on certain activities and this is revealed in the new mails productivity figures which are just out. It has turned the corner now and is creeping up to the figure that was with us some four or five years ago. That in itself is useful, I suppose, to set the scene for some other comments. Our difficulty in all of this with the consideration of the financial targets and the economies is the problem that we face that a deferment of the tariff increase, for example, this year which meant we had to forego something like £12 million because it was delayed for a month meant further economies had to be effected in the Post Office and as a consequence put strains upon staff relations and staff industrial relations. To go on to the point that Mr Mikardo asked about, therefore, industrial democracy, we have set up in the Post Office—and it is based on something that has been going on since 1919 with the

Whitley Council arrangements—a fairly sophisticated arrangement for discussing topics of a general nature with the Post Office. This brought to light, I suppose, in 1977 the fact that the Post Office would be a useful sounding board for industrial democracy. We had a two-year experiment not only at national level but at local and regional level also which was unfortunately terminated by the Secretary of State in 1979 on the Post Office Board decision. We were never consulted effectively about whether it should go on. In those circumstances it has left the industrial relations bereft of what was really the best opportunity that was presented to the staff in the workforce to be able to represent their case. This coupled with economy drives and with the fact that outside pressures prevented us from doing all we should like to have done has made it most difficult to realise the complete objective that all this would have achieved.

Mr Crowther

351. While I appreciate the problems that have just been mentioned, the fact that the unions are anxious to extend the number of employees covered by productivity agreements suggests to me that you feel that the members have been properly rewarded for their productivity increase. Is that the case?

(*Mr Styles.*) In the case of the improved methods it is quite a unique agreement. It is determined at each local area. Whether they go in or not is a voluntary choice of the staff. Management, of course, are enabled to interact on the staff so that common conclusions are achieved. That is why the figure of 762 schemes is important. Each one of those is a positive decision made at a locality to enter into the scheme. The returns that are being achieved clearly are of significance both to the staff and to management. Whether it is the complete long-term answer is anyone's guess. In my opinion there ought to be continuing examinations and developments, but, of course, that is another subject which I would not want to stray into unless you want me to do so.

(*Mr Bowerman.*) Mr Mikardo asked whether the unions participated in that. On a joint basis we have regular scheduled meetings with the managing director which are known as state of the business meetings where we co-operate quite fully and look at the state of the business and what we can do as unions to improve efficiency. There was a joint statement issued by the Post Office

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management and the unions in respect of co-operation. Mr Styles has referred to the IWM scheme. To clarify the situation, that, of course, relates purely and simply to the UCW grades. In respect of my grade, CMA, postal executives, we do, indeed, have an efficiency agreement built into our pay negotiations in which we agree to co-operate fully and oversee productivity schemes such as external recruitment and automation and mechanisation.

Mr Mikardo

352. Mr Bowerman, you are not really saying that a meeting between the senior officials of the unions or of your committee and the top management of the Post Office in itself is adequate to create a system of industrial democracy?

(*Mr Bowerman.*) I would not suggest it was adequate, but certainly it sets the scene which can then filter down through. On the one occasion I am talking about, the joint statement, we were signatories to it and every member of the unions and the staff got a copy of the agreement that we made in respect of efficiency.

353. Can a postman called Joe Bloggs in the E.I district which I know so well go along and take part in decisions about how that office is run? That is what I mean by industrial democracy.

(*Mr Bowerman.*) I take your point, we are back on industrial democracy. Certainly the method I am suggesting was in no way replacing it or even an attempt to be adequate, but certainly we miss out on industrial democracy as the experiment was, yes, indeed.

Mr Hill

354. You made some very hopeful statements this morning talking about productivity and I wonder in unit costs whether you think that you will achieve the performance objective of reducing real unit costs by 5 per cent over the years 1982-83 and 1984-85. In your mind is this achievable or not?

(*Mr Worth.*) I think the Post Office has a duty to carry out the tasks handed to it by Government. We have a responsibility as trade unions to see that as far as possible they meet that commitment. It depends, I suppose, on whether after the event you can say that has been achieved or can be achieved. Such evidence as we have in consultation we have had with management tends to reveal that it is possible to be

achieved although there are a number of factors involved which obviously you cannot cater for at this stage. You cannot cater for constant traffic, for example. You cannot cater for constant traffic of people coming into a counter at a regulated time. There are a number of other features which lead one to suppose that you have to readjust staffing as the need arises and you cannot do that overnight. There is some evidence at any rate that the number of delivery points is increasing which tends to harden the difficulty of achieving the real unit costs. There are a number of these features which at present are going to make it unreal for us to say that that is achievable. All I can promise you is that if the Post Office have this target then we shall do what we can to co-operate with them to achieve it. As a result of that it is hoped we may get some compensation on some of the other features that we are seeking to discuss with the Post Office and the flexibility that is required to help us. For example, I mentioned the tariff increase and the consequential potential loss that we had over that. If the real unit costs are going to be achieved we need some flexibility in our services and what we would like to provide for the public. But the Select Committee in looking at our work must also bear in mind that a 1 per cent wage increase in a labour-intensive organisation like the Post Office represents something like £16 million and that is how sensitive the wage negotiations can become when it is critical for a profit margin. In fact, if you are talking about a 2 per cent turnover and the real unit costs coupled with the need to be paid in a negative EFL £25 million really represents 1 per cent, so in trying to achieve a further £25 million in order to compensate for what we have to pay back to the Post Office, again there will be considerable strains next year on relationships with the staff in trying to effect these economies. I believe they are achievable. At least we have the will to try to achieve them.

355. Going on to the staffing problems to which you have alluded at the end of paragraph 2 of the memorandum, you say you would quite welcome the opportunity to supplement this paragraph. May I ask you to supplement it? What are the staffing problems that you are encountering?

(*Mr Styles.*) The staffing problems are broadly these. In a period of recession such as we are currently in the Post Office is fully staffed. There is a central problem of the

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ability of the Post Office to compete for the labour it needs. In times when we move out of recession there is the tendency for the Post Office not to be able to compete for the labour it needs because of the pressure of demand of other employers for labour. Our problem, therefore, is a cyclic problem. With the ups and downs of the economy the requirement to provide a stable high quality service to the customer is a problem and the ability to provide the staffing to provide that service is not constant. That is why it is crucial that the mechanisation programme completion has been an imperative because without that completion imperatively then we will continue to be subjected to this kind of cyclic problem in staffing. It is reflected in a variety of ways. The Post Office has long convinced itself that its answer is to increase its part-time force. May I make it clear that the trade unions do not oppose part-time labour and never have done? Indeed, there are 11,500 part-time staff in the Post Office service. We believe, however, that the kind of Rowland Hill-based principle of our postal service in Britain which is unique in the world demands a basic dedicated force supplemented by such staffing as would not justify full-time posts. In that regard there is the constant problem that the Post Office actuarially, because of financial pressures, believe that one course is best. We do not necessarily share their conclusion because we recognise that if anything there is an imbalance in the way the Post Office is managing although we work extremely closely and understand them very well, but there is the problem that the Government in the EFL approach and on financial targets are compelling the Post Office to lay inordinate stress upon the provision of financial data and financial expertise and in some respects we believe that the Post Office is under-serviced by operational experienced personnel with the operational needs of the service being in parallel. The tendency is, therefore, for service to be determined on the financial question alone without a regard to the need to provide a regular and reliable service to the public who are our customers. If you would like I could go on to refer to what we are for if that would be helpful.

356. It is entirely up to you. It is your opportunity to fill in the missing words, as it were.

(*Mr Styles.*) What we are for is reflected by the fact that the Union of Communication Workers in concert with our colleagues

have entered into an agreement with the Post Office to set up a postal cadet force in the Post Office from 1980. Having regard to our responsibilities as part of the British community we have negotiated and erected an agreement whereby each one of our units together with the local manager is examining in each sorting office the ability to recruit unemployed young men and women to be brought into the postal service in order to lay a foundation for a stabilisation of staffing in a way that we have not been able to achieve because of this cyclic problem to which I have referred. To date we have in excess of 3,000 postal cadets who have been recruited on a locality basis exclusively. One of the features that may interest the committee is that in order to win the hearts and minds of our people we have asked them in considering our ability so to recruit to give priority to the unemployed sons and daughters of existing staff because in our judgment we believe if a return to the old type Post Office family was achievable it would reproduce the kind of stability that we had in former times which in current times we have forfeited because of our inability. We hold that that kind of approach corresponds not only to Post Office need in terms of service provision but also to exactly what are the community priorities, and it is reflected fairly urgently by the things that are said by you and your colleagues in Parliament as well as Ministers of the Crown and representatives of the Opposition. Therefore, we are fairly clear about the inter-relationship in community terms also.

Mr Mikardo

357. How long does the cadetship last and is there a guarantee of employment at the end of it?

(*Mr Styles.*) Yes, this is the important feature. The target would be that we recruit lads and lasses from the age of 16½ and they will become adult postmen or postwomen by the age of 18. There will be an integration and the target in our agreement is to provide, so to speak, a specialist cadre stream that will enable management to be reinforced with a specialist unit of cadres flowing through via this agreement. By 1900, therefore, with the operation of the agreement we anticipate, provided it is implemented and operated throughout the land, that there will be an increase of about 35,000 young men and women who will be reinforcing the dedicated workforce of the postal system and, we believe, playing their

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part in improving the quality of public service.

Mr Hill

358. Moving on to the need for investment, paragraph 4 of the memorandum sets out the unfortunate results that will follow restrictions on the Post Office's investment programme. This may seem a silly question, but do you think the investment programme should be larger in the next two or three years? Obviously you will think that from your previous remarks. Could you give us some further details? The most important consideration is, how do you as union members think this investment programme should be financed?

(*Mr Styles.*) There is a series of ways in our view. We hold that the terms of the corporation responsibility laid upon the Posts business in 1969 have now been significantly changed in the light of developments since that time. We believe that it is important that the Post Office be as equal as any other corporation in being free to plan its responsibilities to the community in the development of service. Our resentment—and it is a resentment that exists among the staff—is that (and if I put this in shorthand you will recognise that it is shorthand) if we make a profit it goes to the Treasury; if we make a loss we will pay it back later. It is heads they win and tails we lose. That cannot be good for prospects. Where will it come from? We believe the Post Office has an entitlement already to draw upon the money, the profit we have earned as a service, which is in the Treasury at the moment which is being used to buttress other areas of the economy. There may well be political judgments that have to be made, but in our opinion if politicians are going to make political judgments they must accept complete responsibility for political consequences. The service failure, therefore, is one that politicians must accept responsibility for because you cannot have a double standard applied to any service, including the Post Office.

359. You have made several statements about wanting free and open competition and your members want it as open as possible, as I think you said, the full commercialism of the Post Office should now be released. Are there some areas in which you feel you will not be competitive in a full commercial market situation?

(*Mr Styles.*) In the areas where we are alleged to have a monopoly there are very

good and historically long-established reasons why that should be so. The ability for the farmer living on the top of Mount Snowdon to get a letter delivered if the monopoly responsibility was broken is self-evident. A 70 pence cost for delivering such a letter would obviously make it not unit cost effective and therefore there would be whole areas of our country that would be bereft of service that Rowland Hill laid the foundations for so long ago as 1840. In respect of the areas of competition, if the Post Office with its resource as a public service, marketing on the scale that we are capable of doing, is enabled freely and openly to compete, if there are competitors who can provide more effective and efficient service than us within the criteria that exist, then that is fine and that is good for the community, but there are areas that should not be ignored. For example, in terms of the parcels service we are operating openly in a competitive market with no monopoly entitlement and the Post Office is a very big carrier because we provide a national network which clearly is corresponding to commercial business and public need. Where customers choose to go elsewhere then they do that by choice and there is free availability for them to do so. In respect of premium services, in respect of the conveyancing of moneys, in respect of cash carrying and security services, the Post Office has a long record of public service in that regard and we are competitive. If we cannot compete then the public service has a responsibility for falling into decline because it is not providing that which corresponds to the needs of the public whom we are in business to serve.

Mr Stevens

360. Going back a question—and, of course, you are not the only representative of a state-owned industry to say this to us—you were expressing some degree of resentment that the Government take your profit and keep it and use it for other purposes. Would you prefer a situation in which the Post Office was a Companies Act company, in other words, it had shares like anyone else which the Secretary of State would own and it would be expected to pay a dividend, because at the moment it operates as a company sponsored by the Department of Trade, but nobody suggests that it should pay a dividend to the shareholder, to wit, the Secretary of State?

(*Mr Styles.*) Again it would depend upon perception. A publicly owned public service

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that received its letters patent in 1581 from Elizabeth I has a long history which it cannot ignore. We are in business to provide a postal service on a national scale. If you pose it in terms of payment of dividends to the shareholders that would presume that a capital investment would flow. For example, on the division of the businesses that took place, a division occurred of £16,700 million to BT and £1,400 million to Posts. We are not unmindful in the Posts business, however, of the fact that the British Telecoms and the telecoms industry in Britain without the profits that were accrued by the postal service in the years before the thirties and which laid the foundation for the financial basis for a telecoms system in Britain is also a factor we have to take into account, so it depends upon the point at which you start. Taking the question of a corporate company, our view is a clear one. The only way that effective and efficient postal services can be provided—and it is not our evidence, it is the evidence from across the world—is by a publicly owned publicly accountable service with openness in its accounts with an availability for the public to see and observe and remedy through the processes of legislation and procedure and effect control. Now we are not cavilling about the need and requirement for such control. What we are cavilling at is, will Governments please make up their minds? Do they want the industry to work on a 2 per cent turnover? If that is the case, fine, say so. But then do not add the bits and pieces like EFL because our view is that we are being hamstrung. If I am more blunt than Mr Dearing it is because I am not the chairman; I am speaking for the staff that he employs.

Mr Crowther

361. Pursuing the matter of the mechanisation programme, you made it very clear in your written memorandum and in your oral evidence how strongly the unions feel that the mechanisation programme needs to be completed much more speedily than it seems likely to be just now. Were the unions consulted before the programme was introduced? Did you have a share in producing the programme?

(*Mr Styles.*) Yes. Indeed, in 1975 there was an agreement on a programme of mechanisation. We have all the evidence: the reports and all the things that have been said before are matters of public record. However, to date, out of a total programme of 84 mechanised letter centres which were

deemed at that time to be the basis for a complete network to meet Britain's needs—and may I say that at that time there was some evidence which suggested that more than 84 ought to be justified, but that was the basis upon which agreement was—

Chairman

362. Do I not recollect that there was some initial resistance by the unions to the introduction of mechanisation? Is it not correct that some Post Offices were mechanised and lay idle for many months because of union resistance?

(*Mr Styles.*) Yes, Chairman.

363. Then when were you converted to the idea that mechanisation was a very good thing?

(*Mr Styles.*) Latter day conversion is not part of the business of a trade union. If you choose to interpret it that way, that is your business, but I would put it this way. Before we got an agreement we were involved in differences. The purpose of pursuing differences is to obtain an agreement. That which went before was the process which led to the production of an agreement.

364. How many years did it take to get that conversion to an agreement between the unions and the Post Office?

(*Mr Styles.*) I do not think that question is fair in the sense that—

365. I do not want to put an unfair question. I will rephrase it completely. I will ask you openly, as it were, how long did it take to arrive at an agreement between the unions and the Post Office management that mechanisation was a very good thing and should be carried out as speedily as possible?

(*Mr Styles.*) The process of mechanisation has been with us ever since the late 1800s. We have had sorting machines installed in sorting offices for—

366. But I am referring to the modern mechanisation, not the original one, when all this new machinery was put in at various Post Office centres. Some were put in and they were not used for some time because of some difficulties between the unions and the management. All I am asking is, what was the length of time involved and what was the approximate date when agreement was reached and peace broke out?

(*Mr Worth.*) There was only a temporary halt to the proceedings with the mechanisa-

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tion programme. It stemmed from two features. The union representing the members concerned could not see the complete programme as a whole. It was being put in piecemeal. They wanted to negotiate a payment for the introduction of the working of this particular equipment. The time that elapsed between then and when the mechanisation programme got off again was due not just to the UCW hut to the Post Office itself for trying to get the plan put forward in a way that would be acceptable and to reach agreement also with the union on the payment. The payment had to go before annual conference and that took up a little more time. In total I would imagine from recollection—and I may be misrecollecting on this—that it would be 12 to 18 months.

Mr Crowther

367. Does that mean no agreement had been reached before this particular mechanisation programme started?

(*Mr Worth.*) Agreement had been reached, yes.

368. Would you feel as unions that it would have been more sensible for the Post Office to reach agreement with the unions before starting this substantial amount of investment?

(*Mr Styles.*) The difficulty on that is this. It would be unfair to the Post Office to say yes or not because the Post Office equally had its problems in being able (a) to identify the base upon which the programme of mechanisation would proceed and (b) to finance it with backing, and bear in mind that the years through which that process was occurring, the sixties and the seventies, were not an easy period for the employer. Having said that, because I think it is essential to be objective and fair, we see that as the Post Office situation. Certainly as far as the unions were concerned we never have had any doubt that if we are going to provide an effective and efficient public service mechanisation, the processing of mail by mechanical means, is a must and has got to go on and will continue to go on.

369. The enthusiasm of the trade union leadership for this is obvious. Is that shared by the rank and file membership?

(*Mr Styles.*) Part of our difficulty is this. During a catastrophic strike that occurred in 1971 many tens of thousands of employees of the Post Office walked away and left

service. We have recruited replacements, but what we have forfeited is the accumulated experience of dedicated postal people and we have had to build again. As to our ability to convince—I speak for the UCW only—more and more we have in our industry a belief that you come to work to get pay for which you work and beyond that you are selling your labour for a living. The previous base of the postal service—and that is why we are seeking through the postal cadet agreement to go back to where we were—was that in addition to that our employees saw themselves, and were proud of the postal service, as part of the dedicated force that provided that service, and we believe in the long run we have got to get back to that.

(*Mr Worth.*) Chairman, life does not exist in a vacuum as I suppose everybody appreciates. The difficulty is that you agree something in 1975 for something that is going to be completed by 1984. You are only halfway there, you are getting different people recruited and you have to re-educate and keep re-training people in skills which they may not want for many years ahead. It is difficult for us to have our credibility sustained in these circumstances and unless we put all our effort into mechanisation and get it off our backs, as it were, and get people doing the jobs that they are supposed to be doing which we would expect in this new era of postal services, then I am afraid we are going to have all these hiccups of staff wanting to retrace whatever is perhaps an agreement and something they have not seen.

370. On the mechanisation programme, within the limits to which you have referred, namely, the limits which allow the Post Office to invest much less than they would like to on this programme each year, there must be competing claims for the investment cash which is available. Do the unions have a say in the decision-making in this or is it entirely a management decision?

(*Mr Worth.*) We do not have a say. We have the opportunity to express a point of view, but it does not really at the end of the day become binding upon a settlement or an agreement. It is a management decision. If I may further illustrate it, it is not only the mechanisation in sorting offices that we are concerned about; there is also mechanisation that is likely to be required on counters that will enable us to compete in the market for the type of business that is likely to be available. Unless we are going to get some

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money that can be shared out for counter automation as well, then we shall just be in a technological obsolescence and not really able to achieve very much at all. At the same time everybody is striving to go out and get fresh business and really we just cannot compete in that sort of situation.

371. You are saying there is a degree of consultation at least on the use of this?

(*Mr Worth.*) Yes.

372. What are the unions' views on the possibility of increasing the total of the Post Office's business?

(*Mr Styles.*) In this regard we believe that together with the Post Office we have played a part in what we regard as a very successful beginning of marketing in an effective way. The evidence is reflected daily on the screen, but, more important than that, it is reflected in the range of services that the Post Office are offering. May I refer to some up-to-date data that may be of interest? Outside the monopoly function of the postal service, Datapost in February this year increased by 8 per cent, and 'on demand' service has increased by 35 per cent, over-counter service of Datapost, which was started only in January, has doubled in the month, the Express post service in London has increased by a third and we are introducing currently a computer controlled premium service called Super Service in the Midlands which will be extended to the whole of the Midlands area with the intention of further developments on that basis. This is a competitive area—and I refer to the area of premium service against the criterion that was decided by Parliament—and we are providing an effective and efficient service. If we do not successfully compete then we will fail. May I here quote two illustrations? The ability of the Post Office to provide during the weather of December and January has been acclaimed right across the nation because our people were able to deploy in circumstances where it would have been extremely easy to find reasons why service should fail. We did not succeed in every instance. The quality of our performance did not match the norm, but there has been no storm of public complaint because the public equally were housebound during the period and therefore understood. There was the period of the recent railway dispute where, as a result of effective and efficient arrangements and discussions which involved us, we were able to maintain very

credible postal services despite the fact that in normal times 60 per cent of our mail is conveyed by rail. I quote those two as an illustration of the willingness and preparedness of the employees of the postal service at all levels to work in double harness, to expand and make our service and industry grow.

373. Do you feel there are any activities in which the Post Office is not engaged at all at present but in which it could profitably engage in the future?

(*Mr Styles.*) Yes. We are engaged upon marketable commodities. We hold that a dedicated delivery force delivering to or passing 22½ million points of delivery every day is a marketing force of some significance and that it is a resource that has a wider use than in postal terms, but clearly our first responsibility is to ensure that a reliable and effective postal service is provided. Having said that, may I postulate some possibilities? Something like 10.6 million of the people of our country are now pensioners. That will be an increasing number. There is an increasing demand for welfare services for the handicapped, invalided and aged in our society with a declining range and volume of resource to provide those services. There is an availability, if it was thought through and political understandings could be brought to bear, whereby a postal service providing a contact point might assist many local welfare services in knowing whom the customers are that need their attention without providing the entire apparatus in order to go out and identify those who are in need. I quote a couple of illustrations to back that. Because of our social concerns as a trade union—and I speak specifically of the UCW although, of course, we have co-operation from the representatives of all our sister unions—we run some 138 voluntary contact schemes via our members in sorting offices with the understanding of the Post Office whereby postmen bring attention to needs by local schemes. I quote one at Borehamwood where they issue a card which goes up in the window. It is called the flying angel scheme. If a postman on delivery sees that card, when he gets back to the office contact is made with the local welfare department and within a couple of hours a representative from the welfare department goes out and visits that person with the card in the window. I pose this because in my opinion amateurism is not as effective as professionalism. We are profes-



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sionals. It is part of a total resource that we have. The nation could use it better than it is currently doing. I could go on to quote other illustrations, but I think I have said enough to indicate that there are a number of wide-ranging ideas that we have by which the postal service could more effectively serve the nation that it is currently, but always on the basis that our first responsibility and priority is the provision of a reliable, effective and efficient postal service.

Mr Maxwell-Hyslop

374. Mr Baker, what number and proportion of Sub-Postmasters belong to your National Federation?

(*Mr Baker.*) Approximately 95 per cent belong to the Federation. I can soon give you exact figures.

375. Perhaps you might do that in a note because it is the broad spectrum that we wanted to get. How is the Federation organised in relation to the Post Office's own management structure?

(*Mr Baker.*) Would you clarify the question?

376. You have an Area Postmaster who is in charge of Post Office affairs within a certain designated area, do you not? Do you have a structure within the Federation of Sub-Postmasters with elected officers which corresponds to the boundaries of the Post Office's own management structure?

(*Mr Baker.*) Generally speaking, yes. We have voluntary branch secretaries who look after the interests of Sub-Postmasters within a Head Postmaster's area. He if necessary will make representations to that Head Postmaster on behalf of the members within that area.

377. As far as possible these are co-terminous with the area of Post Office management rather than having it fragmented so that there are a number of different branch secretaries whose areas of responsibility are not co-terminous with the Post Office's own management?

(*Mr Baker.*) Generally speaking that is correct. There are a few instances—two, I believe—where a Head Postmaster has to deal with two branch secretaries. There are about the same number where one branch secretary has to deal with two Head Postmasters. However, generally speaking that is correct.

378. In presenting to the public any problems you have—and I am not talking about the confidentiality of an individual person's pension entitlement or something like that—are you inhibited in any way by the wording of the Official Secrets Act from the days when you were a Department of State?

(*Mr Baker.*) Oh, yes, the Official Secrets Act still applies to Sub-Postmasters and a new entrant Sub-Postmaster to this day would have to sign that form.

379. Do you feel this is something that was overlooked when the Post Office became a public corporation and ceased to be a Department of State? Clearly there is a need for confidentiality when you are dealing with your customers' pension requirements and things of that kind, but equally well are you inhibited from correspondence in the press pointing out what your actual rates of commission are as opposed, for instance, to the poundage that a customer pays on a postal order? Are you inhibited by the Official Secrets Act from engaging in what most people consider to be perfectly legitimate activities of that kind?

(*Mr Baker.*) I do not think I could honestly say that we were inhibited by it. It has its practical reasons and we must be guided by those practical reasons. There must be some confidentiality and that has to be respected. Up to this stage it has not been an encumbrance.

380. But on matters concerning your pay and conditions of service as opposed to personal confidential matters, in other words, how much income you get from different classes of activity, what rate of commission is paid, are you inhibited by the operation of the Official Secrets Act from putting your case in terms of any difficulties your members may have before the public?

(*Mr Baker.*) We would be in that case, yes. We would obviously not be able to reveal certain items that were covered by the Official Secrets Act. Up to now it has not been found necessary to have to do that.

381. Would you wish to say anything to the committee about that? Clearly your situation changes to a degree with any major alterations in the proportions of your income which you get from different types of activity, for instance, from National Insurance pensions?

(*Mr Baker.*) I presume we are talking about DHSS benefits?

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382. I was thinking particularly of that.
(*Mr Baker.*) And what the Sub-Postmaster would receive in comparison to what the Post Office receive?

383. Yes.

(*Mr Baker.*) This type of evidence has been given before at select committees; therefore, it can be given at this one. There is an element of doubt about exactly how much a Sub-Postmaster gets in comparison to what the Post Office gets. There is no doubt in our mind. Indeed, I have figures with me today which quoted to a select committee and were published in a booklet called 'Post Office Special Agent' which shows that various amounts are received by the Post Office for differing pensions, differing types of pensions, which clearly illustrates if one takes into consideration what the Sub-Postmaster receives that there is an imbalance.

384. When you have had time to study the transcript of evidence given to the select committee by Mr Dearing, I would be obliged if you would put in a paper giving your reaction to the evidence he gave about the comparative workload that falls on the Post Office other than the Sub-Postmasters in processing and auditing, a function which you perform, and how appropriate or inappropriate you think the split of commission between the two is. Turning to the range of services that are provided at Sub-Post Offices, is it your impression that if Sub-Post Offices were allowed to sell vehicle excise duty licences a large proportion of them would do so rather than the very restricted number at present?

(*Mr Baker.*) I think we must be practical and say from the outset that we acknowledge that the Department of Transport has an interest in this, in fact, the prime interest in it. However, I can say quite categorically that the answer to that would be, yes, a great many Sub-Postmasters would like to handle vehicle licence work over their counters.

385. Would that make a substantial difference to some Sub-Postmasters' incomes?

(*Mr Baker.*) Yes, Sir.

386. Have you been in negotiation with the Post Office centrally about obtaining a wider facility for selling vehicle licences? I know the limiting factor is the Department

of Transport, not the Post Office, but to what extent have you encountered opposition on the grounds that this should be concentrated on Crown Post Offices and restricted in its spread to more and more Sub-Post Offices?

(*Mr Baker.*) We have approached the Post Office in the manner you suggest. We have asked for an extension of motor vehicle licences. We would like the Sub-Post Offices to take their place alongside their sister Crown Offices with a fuller range of services. That is something which we had in mind. Following the assurance that we received from Mr Patrick Jenkin last year, we were looking to an extension particularly in regard to the fact that local vehicle licence offices have recently closed their counters to the public.

387. In the present state of the art, is it your impression that the effective limitation on the spread of sale of vehicle licences, particularly since the closing of local vehicle excise offices, has been due to reluctance on the part of the Department of Transport to have more outlets through Sub-Post Offices or reluctance on the part of the Post Office to apply pressure on the Department of Transport to allow there to be more outlets in Sub-Post Offices?

(*Mr Baker.*) In our approaches to the Post Office the answer we have received is that it is the Department of Transport's decision.

Mr Mikardo

388. Have you asked for other services to be available for provision by Sub-Post Offices in addition to vehicle licences?

(*Mr Baker.*) Yes, Sir, and we will continue to do so.

389. What sort of things are they?

(*Mr Baker.*) The type of things that we have asked for and have achieved are the Royal Mail lightweight packs and that sort of Crown Office facility which we have now achieved and for which we are very grateful. For example, we did ask for Royal Mint crowns, but we could see that the Post Office would have a cash flow problem in providing stocks of any quantity in 22,000 Post Offices. The sort of thing we would like to develop on and has been touched on by Mr Styles today is the tremendous success of the Datapost where on demand—and the word 'demand' is important there—if it is a public demand we would like to make it easier for the public to achieve that service.

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[Continued]

Mr Maxwell-Hyslop

390. How much scope do you see for increasing Sub-Postmasters' income by expansion of two specific services, first, Girobank services and secondly acting as agents for the payment rates, water charges, electricity bills and gas bills over and above what is done at the moment?

(*Mr Baker.*) We have a great reliance on Girobank, faith in Girobank marketing and faith in the Post Office marketing. However, these days of economic strictures are making life difficult for those departments and we must accept that. Yes, we do see our future as collecting agencies for Girobank in regard to the items you have mentioned. If it is not possible for Girobank to get them, then perhaps there is an alternative, but we would obviously prefer to see Girobank grow and we would wish to grow with Girobank in the collecting of those very items that you have suggested.

(*Mr Styles.*) The 1,600 Crown Offices which deal with all types of work supplemented by more than 20,000 part-time Sub-Post Offices that provide a limited range of work reflect the commercial needs and requirements and it is always under constant review. I intervene because I formed the impression from Mr Maxwell-Hyslop's question that he thought there was a contradiction in the demands of the Crown Office as compared with the Sub-Postmasters. As our memorandum describes, we are united in wanting to defend the retention and, indeed, the expansion of the network because there is evidence of a customer need and requirement for a wider and more effective service, more Crown Offices, and, where a Crown Office cannot be justified, very clearly an extension of Sub-Post Office facilities is important also.

391. Certainly some Sub-Postmasters have been under the impression — and they may have been wrong in so doing — that your union opposed the expansion of the sale of vehicle licences at Sub-Post Offices. Is this impression incorrect?

(*Mr Styles.*) I think it is well known that it was the Minister of Transport who laid down the criterion of the number of Offices that would deal. Within that criterion the matter is one of discussion with the Post Office and with the unions.

392. That was not my question. My question was: are Sub-Postmasters right or wrong if they believe that your union is opposed to a further substantial increase in

the availability of vehicle excise licences at Sub-Post Offices? This would, of course, require the agreement of the Department of Transport.

(*Mr Styles.*) Sub-Postmasters are wrong to believe that it is not a matter in which our union and the National Federation are not involved in discussions. We are.

393. I did not ask whether you were in discussions. I asked whether you are or are not opposed to a considerable increase in the availability of Sub-Post Offices for vehicle licences.

(*Mr Styles.*) You are asking me a general question and require a specific answer. It is not possible to give a specific answer to a general question. If you would like to name the Office you want the specific answer on, with notice I will respond.

394. I have no specific Office in mind. My question is a perfectly clear one. As a matter of policy does your union oppose a considerable increase in the availability of vehicle excise licences at Sub-Post Offices?

(*Mr Styles.*) Our union — and you have changed the question slightly if I can be clear — favours the provision of public service. Where crown service of all types cannot be commercially justified, of course, Sub-Post Office facilities must be provided and we support that.

395. So in rural areas which, of course, I have particularly in mind where there is not a Crown Post Office in the village your union does not object if the Department of Transport is willing to allow Sub-Post Offices to sell vehicle excise licences?

(*Mr Styles.*) Again you are asking a general question without a specific. In general, of course, we favour the provision of public service. In many rural areas Sub-Post Offices have in our opinion quite unjustifiably been shut down because commercially they cannot operate with commensurate provision on the other side of the business.

396. My specific question — I am sorry, you are not answering — is this. Where there is a Sub-Post Office in a village and there is not a Crown Post Office in that village would you oppose, if the Ministry of Transport were willing to do so, that Sub-Post Office being allowed to sell vehicle excise licences?

(*Mr Styles.*) If there is such a proposition it will be a product of discussion and we will engage upon it positively.

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[Continued]

[Mr Maxwell-Hyslop *Contd.*]

397. But does that mean —

(*Mr Styles.*) Have I stopped beating my wife, answer yes or no? I am afraid I do not answer questions that way, Chairman.

398. Does that mean, yes, you would object or, no, you would not object?

(*Mr Styles.*) I am sorry, Mr Maxwell-Hyslop, you are asking me, have I stopped beating my wife, answer yes or no. I have a negotiation for which I have a responsibility.

399. Mr Styles, I have not mentioned your wife. I will repeat the question once more. I have asked whether your union does or does not oppose the sale of vehicle excise licences in Sub-Post Offices in villages where there is no Crown Post Office if the Department of Transport is willing to sanction that.

(*Mr Styles.*) At no time has our union made such a statement.

400. I have not attributed any statement to your union. I have asked you whether it does or does not oppose the availability.

(*Mr Styles.*) If the question is posed to us and you are posing that question —

401. I am, yes.

(*Mr Styles.*) If you are posing that question, our answer would be simply this. Provided the circumstances justify that course being taken as a product of our negotiations through the Post Office Unions' Committee we will arrive at agreements and where that is extended to a Sub-Postmaster we will support it.

402. Does that mean you would or would not, translated into English?

(*Mr Styles.*) Dealing with the practical problem — because you persist in asking a general question without a specific — in general, yes, we would favour the provision of service provided it is clearly understood that other effective service is not economically viable. May I make it clear that there are services that postmen provide which are currently provided by Sub-Postmasters which, in fact, because of the absence of Sub-Post Offices postmen discharge — they take stamps and they provide a variety of service — so there is not an automatic formula? There is an area of identifying that which is commercially viable and in the circumstances you are specifically posing I have no doubt that the answer would be yes.

403. I am grateful for that. Mr Baker, are there any other points you want to put to us which in your view would improve the viability of Sub-Post Offices?

(*Mr Baker.*) I think paragraph 6.10 in the memorandum amply puts the point forward that we would heavily depend upon the Post Office and National Girobank actively to market Sub-Post Offices to that end.

404. I meant do you want to add anything verbally to your written submission?

(*Mr Baker.*) There is just the contractual aspect of the Sub-Postmaster. This is where, for example, if the Post Office or Girobank cannot secure for whatever reason a certain type of business, contractually we can tender for that business, but also contractually there are certain items of business that we cannot tender for because we are Sub-Postmasters. Once we accept that situation one of the items within the contract is the acceptance of money on deposit. I think if that aspect of the contract was taken out of the Sub-Postmaster's contract it would allow us to tender more realistically in the commercial field. Having said that, I will clarify that in no circumstances would we take such a course until all avenues within the Post Office and Girobank had been fully explored.

Mr Hill

405. May I come in on the question I raised with the Minister on the security or lack of security in Sub-Post Offices? Indeed, I followed it up with a Written Question to the Home Secretary. The latest figure, as obviously your Federation will be aware, is that there were 100 assaults on Sub-Post Offices in the year 1980 of which eight were in Hampshire so it was of considerable interest to me. The Minister gave the select committee the impression that there were some deep talks going on between him and the Post Office about the safety factors in Sub-Post Offices. Have you any idea what these talks are about? Have you been consulted at all and do you view with alarm the lack of shop and counter design in Sub-Post Offices where it is almost childishly easy to take money away from a Sub-Postmaster?

(*Mr Baker.*) I must say from the outset that we receive the utmost cooperation from the Post Office on the matter of security. They are as aware and as disturbed as we are at the appalling figure. If there were some way to stop that, then the Post Office and the Federation would actively pursue

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[Continued]

[Mr Hill *Contd.*]

that course. A lot of the situations are hostage situations. The nature of the beast of the Sub-Postmaster and the Sub-Post Office is that you cannot always stay behind glass. We must accept that. Further to that, at this moment I cannot say with my hand on my heart what Mr Dearing, the Chairman of the Post Office, has said to the Minister. Certainly deep consultation talks have occurred between the Federation and the Post Office. A considerable amount of money has been spent in London to improve the security. A further sum is now being spent in the provinces to improve security. The sort of thing that we are looking at is strengthening of anti-bandit screens, new safe programmes, safe alarms, personal attack buttons round the office, bars on the screens, mesh above the screens. The reason I have put it like that is that I think you can understand a situation developing; how far can you get?

Chairman

406. At whose cost is all this going to be done, the Sub-Postmaster's?

(*Mr Baker.*) The Post Office's. I can go on from there. In Ireland there was an experiment of mirror glass where you walk in and you cannot see the counter clerk at all. Behind that glass you can have as many bars as you like. The story goes that the gunman walked in one day, saw another gunman with a gun in his hand and ran out again. That may be true, but the point I am making is that we have to keep people coming into our shops and how far we can go on to security line I do not know. This is the dilemma that both we and the Post Office have and are actively pursuing to try and resolve the appalling situation.

(*Mr Styles.*) The Post Office, of course, is probably the biggest carrier of cash in the country. Our turnover is enormous as you would expect with more than 37,000 vehicles on the road. Not unnaturally we have a very high order of agreement with the Post Office in respect of security and, indeed, we have been practising for more than 25 years an agreed common programme of the development of security because it is postmen and postmen drivers who convey the cash to Sub-Postmasters in order that they can operate at work. The area, of course, is

fraught with all kinds of confidentiality and I would not want to stray into that area. But there can be no doubt whatsoever that the current times produce a large increase in the number of problems that we have not only in Sub-Post Offices but across the nation in regard to the provision of postal services. The recent awards of bravery given by the Prime Minister to postal staff are the confirmation and recognition of the extent of that difficulty. In particular in the provision of security we have very substantial investment programmes which we have discussed with the Post Office and which are being applied to on-going ranges of security of a very substantial and very sophisticated kind which will provide very definite marked improvements in the foreseeable future.

407. One of the dilemmas for your Sub-Postmasters is the fact that you want to attract people into the shops very often to sell all the other things that you are selling in addition to Post Office matters. Is that the difficulty with which you are confronted?

(*Mr Baker.*) No, that is not the difficulty to which I was referring. When you go into a bank — and I am using a bank as a parallel because you are faced with a sheet of glass between yourself and the clerk — because of the presence of a lot of other people behind the glass that itself is a security element. In a rural or semi-rural Sub-Post Office where you have a Sub-Postmaster on his own behind that glass, we are talking about bars with seven-inch centres down the inside of the glass and mesh above the glass. While these are all security aids, where do we stop? Will we eventually be looking through a square inch and passing stamps one at a time through a little hole?

408. Thank you very much for all that information. That brings us to the end of the questions we wish to address to you on matters concerning your committee. I know that my colleagues would wish me to thank you very much for the paper you have submitted and for your answers to our questions today.

(*Mr Styles.*) Thank you very much for the opportunity to come, Chairman.

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[Continued]

Memorandum by the Association of International Air Courier Services (PO6)*Competition between international couriers and postal services*

The Association of International Air Courier Services is the official representation body for UK-based international couriers.

In this brief submission AIACS intends to address four points:

- 1 What is the business of international couriers?
- 2 Which markets are served by them?
- 3 Do they compete with postal services and, if so, to what extent?
- 4 Is competition detrimental to the Post Office or the consumer?

1 What is the business of international couriers?

International air couriers carry urgent business documents and parcels from desk to desk between countries in every continent.

Collection, international transportation and delivery are all either undertaken or controlled by each individual operator. This ensures maximum security, reliability and speed.

Most companies operate on a network basis whereby they maintain offices in major international cities (the largest operator has 300 offices in 68 countries) and connect them by the use of 'on board' couriers who travel with their consignments which are then checked in as passenger baggage for secure and fast handling. The speed of air couriers, whose operations are specifically based around the international transmission of time-sensitive material, enables banks in London, for example, to convey an average of millions of dollars in cancelled cheques and other financial instruments across the Atlantic each evening in time to reach their offices and the New York Clearing House.

The main commodity carried by air couriers is business documents of no intrinsic value — contracts, tenders, accounting information, plans, shipping papers and suchlike. A smaller part of their operation involves the carriage of small parcels typically containing computer tapes, spare parts, advertising copy, medical samples and other items that require special handling.

2 Which markets are served by them?

Air couriers do not carry correspondence unless specifically associated with business material. Demand for their service arose from world business as a result of rising interest rates, and a general commercial awareness that time saved was money saved, coupled to an increase in the pace of international trade that certain postal services were not able to accommodate. A system was needed to ensure that urgent material could be rapidly and reliably conveyed to any part of the world and this has now been provided, to the extent that many international companies would not now be established in the UK or British companies competitive in all the markets they serve, if it were not for their ability to use air couriers.

The main users of international courier services are banks, construction and computer companies, shipping lines, lawyers, advertising agents and accountants. In total, they provided the UK-based air couriers with revenue of £47,900,000 in the year to 31st December, 1981. Almost 40 per cent of this is attributable to routes to third world countries not currently served by Datapost. In many cases they provide the only reliable physical communication link between firms involved in development projects across the world and their head offices.

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[Continued]

3 Do they compete with postal services and, if so, to what extent?

No-one would suggest that international couriers are in direct competition with postal services in toto; in 1981 the postal income of the Post Office amounted to £2,125.2 million compared with the air courier industry's figure of £47.9 million quoted earlier (the latter includes boosted revenue following the British Telecommunications Act and should realistically be reduced by at least 25 per cent if it is to be comparable in base with that of the Post Office). The Corporation carried over 10,000 million items against three couriers' 1 million.

In exempting a number of categories of business, including domestic and international couriers, from the postal monopoly in the Act the Government assessed the total impact to the Post Office as:

"...at most to between 1 and 2 per cent of total postal traffic".

The international courier proportion of this is clearly very small.

The only sensible basis of comparison must be that between the Post Office's express business service — Datapost — and air couriers.

AIACS would submit that, while competition must exist between two services providing a seemingly similar facility, its extent is more apparent than real:

- Air courier services and Datapost are in the business of transporting time-sensitive documents and small packages internationally. It has been proved that the customer requires varying standards of service matched to varying prices. These standards can range over differences in transit times, differences in the number of locations served, differences in pick-up and delivery flexibility, differences in insurance arrangements and so on.
- Datapost and the air courier companies between them are able to provide this range of service, such that Customer A may use Datapost for its regular requirements to the USA, whilst using an air courier service to a Third World country. Customer B may require varying pick-up times from a multiplicity of offices, proof of delivery verification by telex, and single company control over all its time-sensitive material between 30 and 40 countries around the world — and for this it will be prepared to pay a premium. Customer C on the other hand may require a regular service for which it is prepared to contract with Datapost to prescheduled addresses.
- The market is therefore well segmented and no organisation is able to offer products which match each and every segment. For this reason it is not possible to say that Datapost and courier companies completely overlap with each other. The market is sufficiently diversified to suggest that Datapost and courier companies' marketing activity overlap only to a limited extent.

4 Is competition detrimental to the Post Office or the consumer?

Recognising that there is some competition between international couriers and the Post Office, AIACS would state that it unreservedly welcomes that competition as being in the interests of both the consumer and the Post Office.

When the British Telecommunications Act was passed in July 1981, it gave air couriers a specific statutory exemption from the postal monopoly and allowed them for the first time the right freely to market their services. Since then, AIACS members have refrained from establishing a rival postal system and have concentrated on promoting their business rather than attacking Datapost's. No Association member has attempted to issue 'knocking copy' aimed at Datapost; there is no need since we largely offer complementary rather than competing services.

AIACS is on record as stating at the time the Act was passed that there was sufficient potential demand for a doubling of the international courier market. As a result of television and press advertising, following Royal Assent, AIACS members reported an average business increase of 25-35 per cent. That advertising stimulated Datapost to produce a highly professional campaign, far more widespread in scope than any of our

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[Continued]

own, and expand its own market share. There can be no question of air couriers damaging Datapost's business or affecting Post Office employment. A large section of British business which previously was ignorant of express services is now aware of their value and familiar with both Datapost and international air couriers.

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MR N NELSON
MR M D THOMPSON and MR BERTIE COXALL

[Continued]

Examination of witnesses

MR N NELSON, Chairman, MR M D THOMPSON, (World Courier UK Limited) and MR BERTIE COXALL, (Airport Couriers Limited), of the Association of International Air Courier Services, called in and examined.

Chairman

409. Gentlemen, I welcome you to this public sitting. The object of this inquiry is to ascertain the present financial position and future prospects of the Post Office. We have had evidence from the Post Office Chairman and his sponsoring Minister and, as you have heard, we have just been taking evidence from the Post Office Union's Committee. Now we are going to take evidence from some of those in the private sector who may to some extent be deemed to be in competition with the Post Office. How many companies are members of your Association?

(*Mr Nelson.*) We have 15 currently.

410. What proportion is that of the total number operating international air courier services?

(*Mr Nelson.*) There are approximately a further 15 to 20 companies outside the Association.

411. Why do they not join your Association?

(*Mr Nelson.*) We have eligibility requirements which perhaps they cannot meet. We are promoting our Association as a very professional body and we are also asking applicants to contribute subscriptions to ensure that our Association can act in a professional manner.

Mr Mikardo

412. What sort of eligibility requirements?

(*Mr Nelson.*) The main requirement is that the company's main line of business is the provision of time-sensitive transportation of documents and small packages by air. That is the main line of business of the applicant. There are some companies whose main line of business is not that provision. For example, a freight forwarder may have a division in which he offers an air courier service. In our current constitution he would not be eligible to be a member.

Mr Stevens

413. My colleagues will wish to know that you took me out to a very agreeable lunch a couple of weeks ago and they will be able to judge the extent to which I have

thereby been suborned by you! You said in the memorandum that you did not pose a very great threat to the Post Office, but I would be interested to know to what extent the Post Office poses a threat to you. For example, would you say that you are competing with them for available business on equal terms? In what ways, if at all, do they have a built-in advantage over you?

(*Mr Nelson.*) I think the main advantage the Post Office has over us—and we are talking now of the Datapost which was mentioned in the paper—has arisen for historical reasons. I think the first one we would identify, for example, is the method of customs clearance of Post Office material. Over the years the Post Office has been able to develop with Her Majesty's customs certain preferential treatment in clearing their material. In fact, we are particularly vulnerable in that area. Although our relationship with Her Majesty's customs on the operating day-to-day basis is excellent, we know, for example, that right at present there is a review being undertaken by customs which is looking at the whole manner of dealing with courier companies and what arrangements there should be for clearing courier companies' material and recommendations may come out of that review which, if they went against our methods, would result in an inferior service being offered to our clients which would have a serious effect on the way we operate and possibly lead to our contraction.

414. You have spoken fairly about your relationship with customs and excise and so on and one realises that the Post Office has built up its relationship over many more years than you have been in being, but are there any practical, legal or contemporary reasons why they should get their stuff through more quickly and easily than you?

(*Mr Nelson.*) I cannot see any, no.

415. So it may be that the study now being made may make recommendations which would ease your position?

(*Mr Nelson.*) I do hope so. My main point is to put across our vulnerability.

Mr Mikardo

416. You say in the memorandum that the services you offer and Datapost are

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MR N NELSON
MR M D THOMPSON and MR BERTIE COXALL

[Continued]

[Mr Mikardo *Contd.*]

complementary. If they are complementary they cannot be competitive. If they complement one another they are not identical?

(*Mr Nelson.*) What we tried to say is, yes, there is a degree of competition, but there are sufficient differences between Datapost services on the one hand and ours on the other which suggest that we are not in a head to head battle constantly. We can elaborate on our difference if you want us to do so.

417. What do you estimate the total value of time-sensitive mail business might be? I can appreciate there is probably room for development of a great deal more. What do you see as a possible ultimate turnover and of that how do you see the division between members of your Association and the Post Office?

(*Mr Nelson.*) That is a very difficult question. We have stated in our paper that the members of the Association produced in 1981 revenues approximating £50 million. The market is rapidly expanding. We expect something in the order of a 40/50 per cent increase this year on 1981. That is for courier services alone. I am not aware of Datapost's figures in addition to that. In fact, I do not know whether they are published. I think as far as the courier companies are concerned you can use that as a base to estimate how large the business can become and if you are aware of Datapost's contribution, add that to it and watch their expansion also, but I think it is considerable and becoming more so.

Mr Hill

418. Turning to derogation, your Association appears from the memorandum to be content with the present state of affairs. Does scope exist for further derogations from the postal monopoly? If so, in which sectors would you wish to see this take place and what scope will there be for your members to participate in this expanded market?

(*Mr Nelson.*) I think we are satisfied generally with the legislative base on which we can operate now. The area which I am not sure this committee will be able to address itself to but which is particularly important to our future is how we can provide a service if we are faced with restrictive monopolies overseas, and I can now mention, which is probably close to home, the EEC. It is not as easy to operate in certain countries of the EEC as it is in

this country. That can be particularly important to us. Any demonstration of the success of relaxation of the monopoly that the British Government can make to our partners in the EEC would, of course, benefit our clients and our members. For the future there are associated services, for example, the development of electronic mail, which some of our members may wish to look at as part of their research programmes.

Mr Mikardo

419. It is pretty clear, is it not, that a business which is increasing at a rate, as you hope, of 40/50 per cent per annum cannot be very badly manacled from outside? I would be very interested to follow up your point about the EEC. Is it a fact or is it not that it is more difficult for your members to do business in other countries of the EEC than for similar enterprise based in those countries to do business with the UK?

(*Mr Nelson.*) If you are suggesting that it is easier for one of our foreign competitors based in this country, the answer to that is yes.

420. You are saying — because this is very important — that companies similar to your own in other Common Market countries are not inhibited by Common Market regulations from expanding their business as United Kingdom companies?

(*Mr Nelson.*) Yes.

421. Why is that so? In what way does that operate? In what way is it that you are denied facilities in, say, Holland or France that a Dutch or French company can claim in the United Kingdom?

(*Mr Coxall.*) I think we can explain it by saying that it is a more restrictive interpretation of what is and what is not a letter and what is or what is not a postal monopoly in some European countries. The inhibitions to our development lie in that because what is the sense of being able to assist British commerce and industry in this country to move their time-sensitive documents to their offices or their clients in an EEC country if that country decides that those documents are within their monopoly and can arrive only by the post? That is the problem that we face in many countries in Europe where we are trying to offer two-way service because the interpretation there is quite different from the interpretation that existed in this country before and the present legislation.

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MR M D THOMPSON and MR BERTIE COXALL

[Continued]

[Mr Mikardo Contd.]

422. Would you consider it appropriate in view of the regular contact which, as you know, we have with Brussels to ask the Association whether they would be kind enough to produce a detailed memorandum for us on this point?

(*Mr Nelson.*) We would be delighted to do so.

Mr Hill

423. Have you made any approaches yourself to the Commission in Brussels? You obviously are fairly knowledgeable on competition policy as stated in the Treaty. What sort of response have you had perhaps from members of the European Parliament on this question? What lobbying have you done in that sphere? What countries are the worst offenders — I say 'offenders' but perhaps opponents to your view would be better — in the EEC?

(*Mr Nelson.*) We have a sub-committee within the Association which has made approaches to the Commission and meetings have been held in Brussels on this very issue. In Brussels the response has been at this stage quite positive. I think we could point to difficulties of interpretation, as my colleague was mentioning, in Germany and France as the main countries.

(*Mr Thompson.*) I think it is also fair to say that we are a sort of fledgling industry. In this country we have only been going with any strength for about seven years. We really have led the way in setting up an Association. We are the only country in the EEC at present with a strong Association. We have been taking quite active steps to get the other countries in the EEC to form associations and then to deal with their postal authorities there so we can come to some wider rationalisation of the regulations. For example, in Germany an association has been formed for a few months only so we would really hardly expect them to have made much progress by this stage. In France there was an initial meeting of international courier companies on, I think, 18 February. I think these steps are being made, therefore, but it is very early days yet.

424. May I paraphrase it all by saying that it is extremely early days, you are taking your first faltering footsteps into the Community, but the conversations you have established already with the Commission would prove that you are not against a brick wall? Would that be right?

(*Mr Nelson.*) We are not against a brick wall with the Commission, no, certainly not.

Chairman

425. Or a mass of regulations?

(*Mr Nelson.*) Or a mass of regulations, but I do believe we are facing national interest.

(*Mr Mikardo.*) Perhaps all this could come out in a memorandum.

Chairman

426. You do about 1 per cent of the total postal traffic, putting it in round figures, or 1 to 2 per cent if you wish. Is it increasing or static or decreasing?

(*Mr Nelson.*) We believe that the total time-sensitive market which is the one in which we are interested is increasing. I am not able to answer that question adequately as to whether or not the time-sensitive market as against the total postal market relationship is changing. I do not have that information. Certainly the time-sensitive market is increasing in its total size.

Mr Mikardo

427. To what extent do you feel the volume of business potentially existing for you might be reduced or threatened by electronic developments?

(*Mr Nelson.*) This is certainly a factor. We believe that for a long time to come there will be a requirement to move documents internationally. I do not think in this decade we will ever be talking to our clients in a cheque-less society, a signature-less society, an original document-less society. Despite over the years of the sixties and seventies the increase in computerisation in business, even computerisation and automation is produced paper and paper is continuing to be produced and to be moved.

Chairman

428. Is your position broadly this, that you have no complaint of any kind against the Post Office itself in the carrying out of its duties but that you are a legitimate competitor?

(*Mr Nelson.*) Yes, that is correct. The point we would like to put across this morning is that we are a legitimate competitor who is perhaps vulnerable, two points that I hope have come out this morning.

429. Vulnerable in what way?

(*Mr Nelson.*) Vulnerable, for example, to difficulties in the EEC or vulnerable to rulings that may go against us in customs procedures, that kind of vulnerability.

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MR N NELSON
MR M D THOMPSON and MR BERTIE COXALL

[Continued]

Mr Stevens

430. Presumably if the Post Office extended its activity to some of the areas that you now cover and they do not that would bring you much more sharply into collision with them?

(*Mr Nelson.*) It would, I believe, stimulate competition. It would also stimulate the growth of the market. We have seen since our own growth and since the relaxation of the monopoly last year a very aggressive campaign by Datapost on the television. This, we believe, is all to the good of the total market, Datapost and ourselves.

Chairman

431. You described yourself as Chairman of Air Courier Services. Are you with any particular company?

(*Mr Nelson.*) Yes, I am.

432. Which company?

(*Mr Nelson.*) DHL (International) UK Ltd.

433. Currently what is the total number of aircraft involved in the whole of your organisation?

(*Mr Nelson.*) We use scheduled services. The main principle of our operation is the courier accompaniment of our traffic on scheduled airlines.

Mr Mikardo

434. You are sort of private Queen's messengers?

(*Mr Nelson.*) That is right.

(*Mr Coxall.*) May I elaborate briefly on the vulnerability to some of the things that we have mentioned?

Chairman

435. Please, by all means.

(*Mr Coxall.*) What we are particularly concerned about is the possibility of various enactments destroying our business which we believe is essential to the business

community in this country. At the stroke of a pen the commissioners of customs could rule that our material must travel as normal conventional air freight which has inherent delays built into it. The British Airports Authority could rule in a month's time if they so wished that our material could not be handled through the passenger terminals. British Airways could again at the stroke of a pen decide that our material which we carry as passenger's baggage should pay a punitive rate. At the moment we pay something like 100 per cent more than any other passenger. We are singled out to take our bag with our courier and pay twice as much as an ordinary passenger with his bag. Those sort of vulnerabilities are very dangerous to us because obviously those things do not apply to the Post Office. In the same way with parking fines the Post Office vehicles do not get parking fines, they do not get towed away, but our vehicles when we are trying to provide the same service or similar service do suffer all those things. Therefore, we feel very vulnerable in providing these services.

(*Mr Thompson.*) In spite of the preferential treatment that the Post Office is getting in the areas that have been mentioned by my colleague, we feel that there is a healthy and competitive international courier business at present. We certainly feel that that is being encouraged by the new Telecommunications Act and we feel that the complete range of services that we and Datapost provide is absolutely essential to the presence and continued development of international business in this country. That wide range of services that Datapost on the one hand provide and the Courier Association on the other hand provide is essential for that growth.

(Chairman.) Gentlemen, thank you very much for the memorandum you gave us, the one you are going to send us, for your presence this morning and for answering our questions in such a pleasant way.

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[Continued]

Memorandum by Securicor Limited (PO9)

This Memorandum, as requested, sets out such comment as Securicor Limited feels it is able to make after reading the Memorandum by the Post Office to the Select Committee and the transcript of evidence given to the Committee by Mr Dearing and his colleagues.

Background Information

Securicor Limited is a subsidiary of Securicor Group Limited, a public company with a current turnover of around £200 million. Profit before tax last year was £9.3 million. Net assets amounted to £50 million.

The Group employs nearly 20,000 people in the United Kingdom and a further 12,000 overseas.

The largest single operation is the Parcels Service, with a current turnover of £70 million per annum. The business is highly competitive, due primarily to some degree of overcapacity, and only secondly because of the recession.

The Post Office offers strong competition with keen prices. Whilst the Post Office is probably not our principal competitor in the commercial parcel field, it is undoubtedly our main competition in the movement of time-sensitive computer data and accounts media. In the field of mail order business, the Post Office actively advertises for custom which is admirably suited to its in-depth coverage of the country. Other carriers, including Securicor, tend to avoid the commitments involving deliveries to private houses.

In the carriage of single parcels, the Post Office enjoys the advantage of its counter facilities through its countrywide outlets, whereas Securicor concentrates on a door-to-door service. Customers are divided on the merits and disadvantages of each system.

Future Prospects

In general we do not think that the nature or extent of competition between Securicor and the Post Office is materially affected for the future by recent legislative changes affecting the Post Office postal monopoly. The Post Office monopoly, both before and after the passing of the British Telecommunications Act 1981, was broadly confined to letters and packets and has not extended to the carriage of parcels and freight.

Securicor has never aspired to compete with the Post Office in running a door-to-door letter delivery service and has always respected the need of the Post Office to have a degree of monopoly in that area. The only context in which from time to time we felt there was scope for relaxation or clarification of the law with regard to the letter monopoly, was in the context of the express letter. It was sometimes suggested to us that Securicor might have carried express letters for customers under the exemption provision in the old Post Office Act, (repeated in the British Telecommunications Act 1981, Section 67 (1c)) which permitted the conveyance and delivery of a letter "by a messenger sent for the purpose by either correspondent". However, we did not seek to exploit this possibility, primarily because it would have been uneconomic for us to have used our freight and parcel vehicles for the carriage of a single letter. Although the law was not clear, we felt that the carriage of more than one letter might arguably have involved us in technically making a "collection of letters", which would itself be in breach of the legislation.

Our position in this context was made clear to Sir William Barlow, the then Chairman of the Post Office, in a letter dated 6th August 1979, written to him by the Chairman of Securicor Limited, a copy of which is annexed to this memorandum.

Nevertheless, recently Securicor has entered the express letter delivery field by acquiring the Pony Express motorcycle delivery business, which is admirably geared to the express

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[Continued]

delivery of a single letter, in which event it is submitted that it might arguably fall within the exemption set out in Section 67(1)(c) of the British Telecommunications Act 1981 anyway. Debate on this point however is entirely academic since for compelling commercial reasons, if for no other, Securicor would never wish to offer to convey a letter by the Pony Express service for as little as £1. It follows therefore that the legality of the service is put beyond doubt by the Postal Privilege (Suspension) Order 1981, suspending postal privilege in respect of a letter conveyed in those circumstances.

18 March. 1982

**Letter from the Chairman of Securicor to Sir William Barlow, Chairman, Post Office,
dated 6th August 1979**

On my return from annual leave I have seen your kind letter of 18th July about the question of the letter monopoly.

As you will probably know, in view of my absence, my colleague Peter Towle met your Mr Tabor last week.

The following therefore, is just a resume of my views, which I know Peter shares.

Any idea that Securicor would ever have ambition to run a door-to-door letter delivery service is totally misplaced. Indeed, I always have considerable sympathy for the view that the Post Office needs some degree of protection, bearing in mind the onerous nature of the door-to-door delivery obligation. Without it, as has so often been said, the cream could be skimmed off the operation by the private operator.

For that reason, we have always tried hard to respect the Post Office position in our own operations.

There is only one area in which I have felt there might be scope for some form of modification.

As I have always understood the present legal position, among the limited exemptions which already exist from the letter monopoly, a general carrier may carry a letter for a customer if the letter relates to goods which are being carried simultaneously with the letter for the same customer. Thus, if we were carrying a set of piston rings from British Leyland to a motor dealer, we could carry simultaneously a letter describing how to fit the rings, but we could not carry a letter about some other unrelated matter, e.g. an invitation to lunch at British Leyland headquarters.

In the course of carrying punch cards, spare parts or other non-letter material, our vans are of course often regularly calling day by day at the multiple premises of individual customers. Very often a customer will have several factories in the same town so that the van will be going round to each factory to pick up the computer input or output. It has happened that a customer has said to us, "as your vans are travelling from one factory to another anyway, may we please ask you to carry an inter-office memorandum?" We have, of course, replied that if the memorandum relates to the computer data we are carrying, then we can carry it for them. In most cases, the answer has been that the memorandum refers to something quite separate and unrelated and we have therefore had to emphasise that we were not in a position to take it. The customer of course thinks this quite absurd. I recall some years back that having explained and defended the principle of the Post Office letter monopoly, the customer replied, "it would be such a convenience to me to utilise this direct link, that I would be perfectly happy to put the full postage rate on the letter and have the stamp cancelled, and still pay you to perform the service".

Some years ago I put this suggestion to the Post Office at a conference at your Aldersgate Headquarters, that a licence might be granted in these circumstances, conditional upon the letters carried being stamped and cancelled in this way. The Post Office agreed to consider

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[Continued]

this and I thought the officials were quite enthusiastic at the time as they appreciated the commercial attraction of being paid through the cancelled stamps for a service that the Post Office would not have to perform. These circumstances would hardly pose a threat to the letter monopoly. However, some three months later I received a note saying that on due consideration, there had been a decision against issuing a licence on those lines. I was not told the reason why the earlier enthusiasm had evaporated. It occurred to me that possibly Post Office union objection might have been a factor.

I do not think the demand for such an operation would be very great and I only mention the point because it might be that somewhere in this area would lie a gesture of compromise if Sir Keith wished there to be something practical out of his reconsideration of the monopoly situation.

It would not require any change in the law as I understand it, since the Post Office already has power to grant licences. If I am right, all that would be needed would be an announcement that following discussion, it had been agreed that in a limited number of cases the Post Office had been encouraged to grant licences to reputable concerns who could be relied upon to play the game and to operate the cancelled stamp system.

I suppose in my own commercial interest, I ought to add that when the subject was discussed previously, I believe the letter rate was substantially less than it is today. It might not be unreasonable for something a little less than the full postal rate to be the requirement today. But suppose, for example, that the private carrier was required to cancel stamps on letters unrelated to goods at a rate say 2p less than the first class postal rate; this should still show a substantial profit to the Post Office for doing nothing and would involve a cost to the customer unlikely to produce a demand for the service, save in exceptional circumstances.

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MR P F H TOWLE and
MR PETER SKEEN

[Continued]

Examination of witnesses

MR P F H TOWLE, Managing Director and MR PETER SKEEN, Legal Director, Securicor Limited, called in and examined.

Chairman

436. Gentlemen, may I welcome you to this public sitting of the select committee? Thank you for your memorandum which we have numbered PO9. In that you say your current turnover in the parcels service is about £70 million a year. The Post Office parcels income for 1980-81 was £211 million according to their report. Is your share of the market increasing or are you maintaining your share of an expanding market?

(*Mr Towle.*) It is expanding and we are expanding with it.

437. Can you say by what amount in percentage terms?

(*Mr Towle.*) In 1977-78 it was £33½ million, in 1979-80 it was £49 million and for our last financial year it was £61 million.

438. You say that the Post Office offers strong competition with keen prices. How does this competition manifest itself considering that the Post Office has over 20,000 collecting points whereas you operate door-to-door?

(*Mr Towle.*) I can only repeat the comment I made in my written submission that the customers are somewhat divided on which service they wish to have. We as a company virtually established the express parcel door-to-door service and it has its adherents, but the Post Office through its many outlets obviously takes far the greater majority of the parcels that are taken over the counter. Customers can bring parcels to our terminals, but they tend to be at the end of motorways or inaccessible places and for that reason we concentrate on a door-to-door service.

439. Is your aim to beat the Post Office?

(*Mr Towle.*) On those figures I think it is unlikely we could overtake them. We have concentrated on supplying the finest door-to-door service that we can and we think we have had some success in that direction. We have no ambitions to tackle the Post Office on an over-the-counter basis. We just could not do it.

Mr Mikardo

440. Moving to Datapost, there you say that the Post Office is your main competitor

which is pretty obvious. Are you happy about that element of competition?

(*Mr Towle.*) Yes.

441. You do not make any suggestion that it is unfair competition?

(*Mr Towle.*) No.

442. You think there is room in the market for both?

(*Mr Towle.*) Yes.

Mr Hill

443. Would you like to see further derogations from the Post Office monopoly or has the 1981 Act gone as far as you would wish?

(*Mr Towle.*) We feel it has gone as far as we could wish.

444. How has the 1981 Act affected the proposal contained in your letter of 6 August 1979 to Sir William Barlow? Did Sir William reply to that letter (I am sure he must have done) and, if so, what did he say?

(*Mr Towle.*) I am afraid I do not have his reply. I think it was little more than an acknowledgement, but I will supply the reply if you so wish.

445. It was just the very interesting point you make here that a licence might be granted conditional upon letters carried being stamped and cancelled. You pointed out to Sir William Barlow that this would be virtually a sum of money put straight into his coffers for no work at all except for the printing of the stamp. You do not recall how he reacted to that because obviously you never did get this licence?

(*Mr Towle.*) The proposal was put to a predecessor of his by our chairman who wrote that letter. Might I jump in briefly here to apologise that our chairman could not be here personally today? He wanted to do so, but the notice we had for this meeting was relatively short. He would otherwise have been here himself and could have enlarged on that correspondence which was, I am afraid, before my time. If he can enlarge on it in writing afterwards he would be delighted to do so.

(*Mr Hill.*) Perhaps we could have the reply of Sir William Barlow to tidy that point up.

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Mr P F H TOWLE and
MR PETER SKEEN

[Continued]

Chairman

446. It would help the committee very much to review the matter. The point is though that nothing has happened in connection with the proposal to put postage stamps on your parcels or messages? That has not been carried out?

(*Mr Towle.*) No.

Mr Mikardo

447. On the general question of your competition with the Post Office, on which, if I may say so, you have answered the question very fairly, you have also again very fairly in your memorandum pointed to the fact that the Post Office has an element of obligation to provide universality whereas you and other companies for that matter in various parts of the field are able to collect what services you want to offer and what services you do not. That really is the basis that makes the competition right, is it not?

(*Mr Towle.*) Yes. We always feel there have been in the past two markets and that we have developed a market with which the Post Office has not concerned itself greatly, the door-to-door market. They are now much more active in what we would describe as the contract parcels field and that is why they are now competing very much more strongly than they have done in the past.

Mr Stevens

448. On that point, you said in your paper that you would not want to carry a letter by Pony Express for as little as £1. What is your scale of charges for that kind of service as compared with the Post Office's?

(*Mr Towle.*) It is £2.50 minimum charge by Pony Express plus mileage charges where appropriate. The £2.50 is taking it next door.

449. What do the Post Office charge for that?

(*Mr Towle.*) In their own motor cycle service?

450. Yes.

(*Mr Towle.*) I am afraid I do not know. Our charge is a relatively standard one.

451. I must say I am surprised that you do not have the Post Office charges at the tip of your fingers because I would have thought it was the key element in your competitive position.

(*Mr Towle.*) The Post Office as far as I know have a very small motor cycle operation which we have not really come across in competition.

452. So their competition is not important to you in this field?

(*Mr Towle.*) No.

453. But it could become so presumably?

(*Mr Towle.*) Under certain circumstances, yes, it might.

(*Mr Stevens.*) We are concerned clearly for the consumer, the customer, and we are anxious that the consumer should have the best possible deal, and to that end Parliament decided to enlarge the private sector somewhat and naturally we are concerned to see, although it is early days yet, what the effect of that decision has been. Anyway, we shall no doubt have opportunities to return to that in the future.

Chairman

454. That brings us to the end of the specific points we wish to put to you on your memorandum. Is there anything special you yourselves would like to say while you are here with us, Mr Towle?

(*Mr Towle.*) The International Air Courier Services Association were concerned with vulnerability. I do not think we have the same factors. I would think the only possibility of unfair competition that we could envisage at this time is if the Post Office investment might be supplied by Government, not through the normal commercial considerations that companies such as ourselves have to meet. This could possibly give an advantage in expenditure in mechanisation and so on, in parcels handling, which might prove a serious factor.

Mr Mikardo

455. But as long as you are increasing your share of the market at the rate that you are, you do not lie tossing sleepless in bed about the Post Office competition, is that right?

(*Mr Towle.*) I think that is a fair way of putting it.

Chairman

456. In the meantime, you are speeding the Post Office up, are you, in their commercial activities?

(*Mr Towle.*) I do not think we can claim that, Sir.

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MR P F H TOWLE and
MR PETER SKEEN

[Continued

[Chairman *Contd.*]

(Chairman.) Gentlemen, thank you very much for your paper, for your attendance and for your answers to our questions. A copy of the evidence and our report will be out in the fairly near future and a copy will be sent to you.

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[Continued]

**DEPARTMENT OF TRANSPORT BUSINESS AT POST OFFICE COUNTERS
AND PAYMENTS MADE TO SUB-POSTMASTERS FOR IT****Note by the Post Office (PO7)**

The note which follows gives further information about Department of Transport motor vehicle licence work at Post Office counters as requested by the Committee at the hearing of Post Office evidence on 3rd March.

For each MV licence issued at a sub-office, the Department of Transport will pay the Post Office approximately 97p of which 43p (44½ per cent) will go to the Sub-postmaster.

The payment made to a Sub-postmaster for any transaction is dependent on its unit value. The value is calculated in relation to the time taken to transact the specific item of business, and both the unit value and the scale against which it is read are negotiated between the Post Office and the National Federation of Sub-postmasters. The percentage of the total price which a Sub-postmaster receives therefore varies between types of transaction; for example, for Department of Health and Social Security transactions, which are by far the biggest group, the figure is approximately 50 per cent.

As explained in evidence to the Committee extensive back up and administrative services are provided by the Post Office and for the sub-post office network and this is why therefore the Post Office retains approximately half of the gross remuneration.

On the question of the present restrictions on the number of sub-offices eligible to carry out MV licensing work, as the Committee was advised the Post Office does not seek to restrict the number of outlets; that decision is for the Department of Transport.

11 March 1982

CUSTOMER AUDIT**Paper by the Post Office Users' National Council (PO10)**

1. This paper is submitted to the Industry and Trade Committee of the House of Commons for their current Inquiry into the Post Office.
2. As the statutory body set up to represent the interests of Post Office (and British Telecom) customers it is an essential part of the Council's activities to assess the way in which Management of the Businesses discharge their customer responsibilities. The annual customer audits we have proposed for Posts and Telecom provides the framework for this assessment to be carried out. This paper describes in outline the various facets of an annual audit for the Post Office.
3. Our proposal is based on the premise that customers have rights just like shareholders and employees. The audit would therefore be an attempt to assess the activities of the Post Office on a regular and agreed basis from the customer viewpoint. It would be aimed at enabling the customer to judge the conduct of the Business on his behalf—its achievements as well as its shortcomings—over a specific period of time.
4. The customer audit would not be a one-off all embracing exercise of the type the Monopolies and Mergers Commission may be expected to carry out. It would be one in a series. Certain topics would form a central part of each year's exercise. But the audit would also develop in the light of experience so that Management was aware that promises given or deficiencies identified would be subject to re-examination. Each annual audit would be related to its predecessors.

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[Continued]

5. Some general considerations are set out below.

5.1 Timing

The audit should broadly cover the financial period of the Business and the Customer Audit Report should follow publication of the Report and Accounts. In this way there will be less inhibition about disclosing facts and statistics since they will largely relate to a period already closed; and it will be of value to see comment from the customer angle which can be related to the financial achievements of Management. The process would start in April and be completed by the Autumn.

5.2 Procedure

A pattern similar to procedure on Tariff Reports would be followed. Management would submit a paper covering the conduct of the Business during the relevant period. The main topics to be commented on (see below) would be agreed in advance. Since we now hold regular discussions with Postal Management on the progress of the Business there should be no difficulty about this. Indeed, it is likely that a customer audit would serve to draw together some of the piecemeal discussions which have grown out of our relations with Management over the past two or three years. At the same time the paper would not exclusively cover ground delineated by the Council. Management should regard it as the opportunity to make its case to the customer — a vital part of the customer audit concept.

As in the past with specific tariff proposals, it is likely that the paper from Management would provoke a set of questions from POUNC for which written answers would be required. At the same time we would seek the views of customers and user groups including consumer organisations, relevant trade associations and Post Office Advisory Committees. In this way the exercise would be a focus of customer views.

The scene having been set by an exchange of papers we would then have discussions with Management to clarify and seek further explanations on points arising from those papers.

5.3 Content

The following are the main topics that might be covered in the initial audit:

5.3.1 Quality of Service

This would be related principally to mail delivery. The basic information would be the quarterly data on national and regional delivery performance already collected by the Post Office.

Shortfalls from delivery standards would be examined and explanations sought. This need not always reflect badly on Management and the opportunity would thereby be created for assessing external influences. From time to time it is likely that the validity of the standards themselves (e.g. for the delivery of second class mail) would need examination. Generally speaking, however, this part of the audit would concentrate on what happens to mail deliveries nationally and by regions month by month through the year and why.

5.3.2 Provision of Service

It would be necessary to consider any changes in services during the period under review and the reasons for and results of such changes. A major example of this is the possibility of changing delivery patterns to achieve better utilisation of capacity which is under consideration and on which we have had discussions with the Post Office.

The development of new services would be reviewed, for example, Expresspost, Datapost, Intelpost and the Royal Mail Special Delivery Service. The possible phasing out of existing services would be considered.

5.3.3 Value for Money

Once the audit has covered the question of performance against standards, it would be necessary to consider whether the price was reasonable. This would be a question relating not only to the period under review but also to the longer term trends over a period of years.

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[Continued]

It would be of value to draw comparisons both with the general course of inflation as measured by movements in the Retail Price Index and also with a range of comparable goods and services, for example, those supplied by other nationalised industries. We would not exclude from this some comparisons with the private sector which might also be relevant. And although we are aware of the dangers, we feel it would be most helpful both to customers and Management to establish a series of international comparisons with the services provided by other Postal Authorities.

It would be desirable in this section of the audit to bring out any appropriate aspects of pricing policy. For example, the price relationship between first and second class letter post is one on which we have had continuing discussions with Postal Management.

5.3.4 Productivity:

There has been an enormous volume of comment over the years about productivity in the nationalised industries. It is a thorny subject about which there appear to be violent differences of interpretation. Since by far the greater proportion of postal costs is labour related however, productivity is a vital consideration for the well being of Post Office customer audit. We would look at both mails and counter productivity. From Management's point of view there would be excellent opportunity to air the question in public and drive for a sensible basis of measurement.

5.3.5 Projections:

Although the customer audit would rightly concern itself with a specified period corresponding to the financial year of the Business it would also be desirable that an assessment should be made of the outlook for the current period. It is vital that customers should be given as accurate an indication as possible of future price trends and service provisions. The movement of costs, including wage costs would be considered as would progress, or lack of it, on mechanisation and other forms of investment. At the same time a projection of the future by the Council based on informed discussion would constitute a good external basis for subsequent assessment.

6. During the Lords Committee Stage of the British Telecommunications Bill, the Department of Industry's spokesman, the Earl of Gowrie said the Government hoped discussions on the audit proposal 'will result in a constructive experiment'.

7. The Post Office recognise that customers have a legitimate interest in the aspects of their activities mentioned above. They accept these should be reviewed on customers' behalf. The Post Office, however, is concerned about the current burden of accountability to a variety of bodies. It wishes to see an agreed set of measures which between them meet the needs of all concerned, with each concentrating on those which are specifically relevant to its function. We are at one with the Post Office on this.

8. We recognise that an exercise of the kind described in outline above would involve a certain amount of work. It is unlikely however that additional data would be required beyond what would already be available in Postal Headquarters. Any yardsticks of assessment would, we hope, be a matter of agreement between Management and the Council.

9. We do not see the customer audit as a hostile exercise. It would not be an annual witch hunt. In summary it would be an opportunity for Postal Management to state what kind of a contract it offered its customers during a specified period; and for customers to assess whether or not Management had delivered on that contract and to apportion praise or blame accordingly.

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[Continued]

REPRESENTATIONS ON SUB-POST OFFICES

Paper by the Post Office Users' National Council (PO12)

1. This paper is submitted to the House of Commons Industry and Trade Committee for their current Inquiry into the Post Office.
2. It covers the Committee's request for details of representations about sub-post offices made to POUNC by user interests and action taken by POUNC on such cases. It covers the period January 1980–March 1982.

Background

3. Currently the sub-post office network comprises just under 21,000 offices. The following figures show the decline in the number of offices over the last ten years:

1972	1973	1974	1975	1976
22,672	22,510 (162)	22,276 (234)	22,060 (116)	21,804 (256)
1977	1978	1979	1980	1981
21,543 (261)	21,342 (201)	21,213 (129)	21,056 (157)	20,894 (162)

Figures in brackets represent the number of offices lost over the previous year. It can be seen that closures, having peaked in the late 70s, have been at reduced levels more recently.

4. POUNC conducted a wide-ranging study of the sub-post office network in 1976 as part of its evidence to the Post Office Review Committee. A copy of the Council's report (No. 14) is appended at Annex A.*

5. It can be seen that we considered the prospects for the network from a number of different angles: the adequacy of the Post Office's return for Government agency services; the social environment in which it functioned; the Post Office's plans for its future size; and the way closures were handled.

6. In May 1981 we concluded negotiations with the Post Office on a 'Code of procedure to be adopted by the Post Office in reviewing the future of a sub-post office'. A copy of the Code, which provides for full local consultation, is appended at Annex B. We would have liked to see the DHSS, as the major 'customer' for sub-post office facilities, consulted when the Post Office proposed to close an office. The DHSS were, however, unwilling to become involved.

Representations

7. During the twelve months from January to December 1980 POUNC received 47 written representations about sub-post offices: 20 of these concerned the closure of specific offices; 10 were about the provision of sub-offices; and the remainder mainly stemmed from publicity given to the plans by the DHSS to change the method of paying benefits and pensions.

8. We often receive several complaints about the same closure. In 1980 the total of 20 representations related to the closure of 12 offices, the maximum number of complaints about a single closure being 4. We take up with the Post Office at Regional senior management level all cases of 'specific' closure.

9. Of the 12 offices which were the subject of representations only one was retained by the Post Office. This was however the subject of a great deal of local pressure and it seems unlikely that POUNC's involvement turned the tide. The deciding factor in many such cases seems to be the weight of local opinion and the volume of local high level opposition

*Not printed

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[Continued]

such as that mustered by the local MP plus the local authority and the Post Office Advisory Committee if there is one. Our impression is that if such opposition is fixed on an office threatened with closure for economic reasons and these economies are marginal the Post Office may be prevailed upon to concede rather than spend a lot of (expensive) high level time maintaining its plans for closure. However, we have no tangible evidence for this.

10. During 1981 the pattern was much the same: there were 46 written representations about sub-post offices but only 9 concerning closures involving 5 offices. Four of the offices eventually closed. On the fifth, whilst the sub-postmaster withdrew his resignation and the office remained open the Post Office held to its original decision to close if the opportunity arose. This happens occasionally. A sub-postmaster finds that the Post Office does not intend to keep his office open when he resigns. He will not have known this for certain before he submits his resignation, although he might suspect it. Since the loss of the Post Office may affect the sale of his business he may decide to withdraw his resignation and keep going.

11. We also received 7 letters about the provision of offices: 4 of these were about provision in specific areas; the rest covered general queries, for example, on the Post Office's criteria for providing offices. None of the offices which were the subject of representations was subsequently established. A main feature was the number of letters (24) we received opposing the Government's decision on changes in the payment of benefits and allowances and remarking on the effect this might have on sub-post office business.

12. So far this year (to March 1982) we have had 8 representations about sub-post offices 3 of which have been about the closure of specific offices. One of these is still with the Post Office; in the other cases the Post Office decided not to reverse its decision. Of the other representations 2 were about the provision of sub-offices and the remainder about miscellaneous aspects.

13. Whilst it is obviously part of our representational function to consider and pursue complaints involving both the closure of specific sub-post offices and the provision of new offices, as a central body without knowledge of a particular locality we are not well equipped to make a strong case in respect of individual offices. It was in recognition of the important role of local interests in this matter that we negotiated with the Post Office the Code of Procedure mentioned earlier. The Code has not yet been in operation long enough for its effectiveness to be assessed. In setting out the main features of the procedure for reviewing sub-offices including the criteria the Post Office take into account and who should be consulted, we believe the Code will prove of value to those who may be affected by changes in sub-office facilities and also to the Post Office in its relations with customers.

March 1982

Annex B

CODE OF PRACTICE ON SPSO CLOSURE AGREED BETWEEN THE POST OFFICE AND THE POST OFFICE USERS' NATIONAL COUNCIL MAY 1981 (AS AMENDED JULY 1981)

PROCEDURE ADOPTED BY THE POST OFFICE IN REVIEWING THE FUTURE OF A SCALE PAYMENT SUB-OFFICE

BACKGROUND NOTE

Every year about 2,000 (10 per cent) of our sub-postmasters resign and when this happens the Head Postmaster takes the opportunity to look at whether the sub-office is still needed. On most occasions it is clear that the office should continue and he appoints another Sub-postmaster, as far as is possible ensuring that there is no break in service. Sometimes, whilst there is clearly a need for a sub-office, despite his best efforts, he is unable to find a successor. When this happens he has no alternative but to advise the bodies listed in 3 below that he will be forced to close the office.

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[Continued]

There will be a few instances where he feels that the office is really no longer justified and should be closed. What follows sets out the procedure he will have gone through and how he goes about things.

THE PROCEDURE

1. Mostly it begins with the Sub-postmaster's resignation. Usually a Sub-postmaster gives the Head Postmaster three months' notice that he will be going but sometimes, e.g. in the case of the death or urgent medical retirement of a Sub-postmaster, the interval will be shorter. When this happens, the Post Office usually tries to maintain a service until the future of the office is settled, although this is not always possible.

2. The Head Postmaster will review

The distance from other offices — normally offices are not provided less than one mile away from other offices in town areas or two miles in rural areas, but this is not rigidly applied.

The amount of business done.

The type of business done (e.g. are a lot of pensions paid?)

The difficulty customers would face in getting to another office (e.g. is there a suitable bus service? Would there be steep hills?)

The ability of nearby offices to absorb additional work.

The likely future development of the area.

3. If it seems the office may no longer be needed (or would be better situated in another location) the Head Postmaster immediately advises the Local Authorities, local Post Office Advisory Committees (or, if no POAC, the local Chamber of Commerce), Rural Community Council (where one exists) in the case of rural offices and local Member of Parliament of his thinking. He aims to give the maximum possible notice that circumstances may change — at least two months and longer if possible. He usually asks for any comments within a stipulated period, generally not less than one month. This gives all interested parties the opportunity to bring to the Head Postmaster's attention any factors he may have overlooked or of which he was not aware.

4. The Head Postmaster considers all the responses sent to him from those he had notified and also any other he may receive. Following this he tells all those people that have made their views known of his decision.

5. If his decision confirms his provisional view, or even if discussions about the future of the Office are still going on, a notice announcing the planned change is put up at the office one month in advance. We do this since we believe this is better than a sudden announcement of imminent closure.

6. Even after an office has closed, the Post Office is always willing to examine proposals for the establishment or re-establishment of sub-post offices if changed circumstances demonstrate a need.

THE DIFFERENTIAL BETWEEN FIRST AND SECOND CLASS MAIL

Paper by the Post Office Users' National Council (PO13)

1. This paper is submitted to the House of Commons Industry and Trade Committee for their current inquiry into the Post Office. It supplements evidence given by POUNC to the Committee on 17 March 1982 on the differential between first and second class mail.

[28 April 1982]

[Continued]

2. The question of the differential has been the subject of POUNC comment ever since the introduction of the two-tier letter service in 1968. On almost every occasion when the Post Office has submitted tariff proposals to us the implications of their measures on the differential have been considered.

3. At each successive tariff change in the years immediately following the launch of the two-tier system the differential narrowed; in 1968 a minimum weight first class letter cost 25 per cent more than a second class letter; before the 1973 increase in prices the differential stood at 20 per cent. We opposed Post Office proposals in that year which further narrowed the differential to 16.7 per cent. In recommending that the second class rate should not be increased our object was to make the differential reflect more appropriately the service standards which the two streams of letter traffic were intended to provide. That has continued to be a main underlying consideration in our examination of the effect of the differential of successive tariff proposals.

4. The movements in the differential since 1974 are illustrated in the following table:

<i>Differential between first and second class mail (%)</i>							
1974	1975	1976	1977	1979	1980	1981	1982
17	29	27	31	29	20	22	24

It has thus been as high as 31 per cent and as low as 17 per cent. Between 1977 and 1980 the application of equal money increases to both classes of mail narrowed the differential. During discussions between POUNC and the Post Office in 1980 agreement was reached in principle that the differential should be widened when prices were next increased. We are pleased that the Post Office have been able to keep to this undertaking in respect of the last two tariff changes.

5. In setting rates for the two classes of letter traffic and thus the differential, financial and operational considerations have to be weighed as well as customer preferences. A pricing option which widens the differential results in a swing to second class mail. For example, in the period from September 1973 to March 1975 when the differential widened from 17 per cent to 27 per cent the percentage of traffic posted first class fell from 42 per cent to 35 per cent. The swing of traffic in recent years, however, has been less marked. When we were considering the round of price increases introduced last February we asked the Post Office what had been the effect on the split between first and second class mail of the widening of the differential in 1981. They confirmed that after an initial swing away from first class service the proportion of traffic posted in that stream had recovered. They expected that the further widening of the differential in the 1982 tariff round would lead to a small swing of traffic from the first to the second class stream equal to 1 per cent of total traffic in a full year.

6. A smaller percentage of traffic in the first class stream is better for performance. The differential however has to be set to avoid extremes. The Post Office would regard less than 30 per cent mail by volume in the first class stream in this light (currently the split is of the order of 41 per cent first class and 59 per cent second class mail). The Post Office have told us that widening the price differential beyond 30 per cent would represent a change which could not be matched by the improvements in quality of service needed to justify it.

7. Business user representations to POUNC at the time of tariff references invariably support any moves by the Post Office to widen the differential between the two classes of mail. Market research by the Post Office has shown that business customers prefer a wide differential and a lower second class price. Whilst the same research indicates that private customers favour a narrower differential it is clear from the representations they (and business customers) make to us that the reliability of the mails is a primary consideration. When the postal service was at a low ebb in 1979, correspondence from users suggested they would be willing to pay more for a first class service which met its delivery targets and on which they could depend. Our overall objective is to ensure that the differential properly reflects the substantial difference in the delivery targets the Post Office aims to achieve.

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[Continued]

TRENDS IN DATAPOST BUSINESS

Note by the Department of Industry (PO14)

Q.224 Could you tell us what the trend of business of Datapost has been since the passing of the Act last year?

A. The BT Act has had no detectable effect on Datapost traffic. Datapost traffic levels are influenced by a variety of factors. There is no evidence that long term growth prospects have diminished as a result of the recent legislation.

POST OFFICE GENERAL RESERVE

Note by the Department of Industry (PO14a)

A FINANCIAL ASPECTS

1. The Post Office General Reserve (in historic cost terms) represents the cumulative retained profit/loss after all provisions have been taken into account. It forms the major source of finance in the overall capital structure which, according to the Post Office Report and Accounts at 31.3.81, comprises:

	£m
Long-term loans from the Secretary of State	182.3
Foreign Loan	10.3
Long-term liability	75.9
General Reserve (at historic cost)	<u>230.5</u>
	<u>£499m</u>
This capital is invested in:	£m
Fixed Assets (at historic cost net book value)	398.3
Current Assets:	
Stocks	16.4
Debtors	104.7
Short-term loan to BT	99.7
Cash and short-term funds	<u>671.7</u>
	<u>892.5</u>
Current Liabilities:	
Creditors	209.9
Agency Service balances	578.9
Inter-business balances	<u>3.0</u>
	<u>791.8</u>
Net Current Assets	<u>100.7</u>
	<u>£499m</u>

2. There is no distinction drawn on which assets are financed from the Reserve but one way of looking at the position is to regard the long-term loans and liabilities as financing the long-term fixed assets (or part of them). On this arbitrary assumption it would leave the Reserve of £230.5 million invested in the balance of fixed assets (£129.8 million) and the net current assets (£100.7 million).

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[Continued]

3. Any current assets in the form of cash, surplus on immediate requirements, and currently fluctuating between £100-£200 million* are lent overnight or short-term through the financial markets at commercial rates of interest. The Post Office is restricted to lending only to the public sector.

4. The interest rates payable on the long-term loans from the Secretary of State are historically moderate (averaging about 9 per cent for the Corporation as a whole prior to the split) as they derive from the National Loans Fund rate at the time the loans were issued, mainly between 1962 and 1980.

B USE OF POST OFFICE CASH SURPLUSES FOR INVESTMENT

1. The general arrangements for handling net cash surpluses accumulated by nationalised industries were discussed by the Public Accounts Committee in its Twentieth Report for the session 1979-80 (*Advances to the British Airports Authority*, HC 738, 1979-80) and again in its Fifteenth Report for the Session 1980-81 (*Nationalised Industries: Capital Structure and Internal Reserves*, HC 349, 1980-81).

2. In reply to the PAC's Twentieth Report for 1979-80, the Treasury Minute of January 1981 (Cmnd 8125) gave a comprehensive statement of the Government's approach to handling surpluses of this kind. Three sets of circumstances were envisaged. The first was where an industry generated a level of internal resources in excess of investment requirements for purely temporary reasons. Where this is the case, the industry is required to place these funds within the public sector, thus reducing the net financing needs of the public sector as a whole. The second was where an industry generated a surplus in excess of the amounts needed to finance its investment programme over a period of years, but had outstanding long-term debt to repay. In these circumstances, it is the Government's practice to agree negative external financing limits, with the surplus to be used to repay the outstanding debt. The third was where an industry was generating a surplus well in excess of its investment programme but no longer had outstanding debt to pay. Here the Government has made it clear that there is a need to consider additional payments to the Exchequer, if necessary through the case of new specific powers where none already exist.

3. The Post Office's 1981-82 surplus falls within the first category, although with the industry's negative EFL for 1982-83, it may come closer to the second in future.

4. The Government's central concern in setting these rules has been to maintain and reinforce the system of control set out in the 1978 White Paper ('The Nationalised Industries', Cmnd 7131). This approach is based on the need for systematic appraisal of investment, against the requirement that the industries should earn a 5 per cent real rate of return on their programmes as a whole. External financing limits are then set after taking account of the industry's forecast internal resources. But, just as there is no specific requirement that an industry's investment programme should be determined by its ability to finance its investment internally, there should be no presumption that an industry should necessarily be permitted to use all its internal resources to finance investment, whether directly in the same year or by investing those funds on a short-term basis and drawing them down at a later date without restriction. Whether this can be permitted will depend on

- (i) the Government's assessment of the merits of the industry's investment programme, and
- (ii) the implications for the industry's external financing limits.

5. If in a given year an industry generates an unexpectedly high level of internal resources, it can make a case for an increase in its investment approval for that year. In deciding whether to grant this, the Government will take account of the justification for the additional investment, i.e. whether it is expected to meet the 5 per cent real rate of return requirement. Because of the higher internal resources, the industry's external financing

*Approximately equivalent to the difference between the cash and short-term funds figure and the Agency Services balances in the table above.

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[Continued]

requirement will be unaffected. Alternatively, an industry may decide not to seek to spend the additional funds on investment, but to invest them elsewhere within the public sector, in accordance with the guidelines, as the Post Office have done. In the absence of offsetting changes, this will cause the industry to undershoot its EFL. The industry can then run down its lending at a future date, for example in the following financial year, but repayment will have external financing implications similar to those of borrowing from the Government or from the market. It will thus score against the industry's external financing limit for the year. If it did not 'score' in this way, the Government's control over nationalised industry finances as a whole would be seriously weakened; it would be open to every industry to invest surplus funds earned in any year, and to use those funds in a future year as a source of finance over and above its agreed EFL. The nationalised industries are not of course debarred from using surplus funds as a source of finance, but this should be in substitution for, rather than additional to, other forms of finance such as borrowing from the National Loans Fund.

C STATUTORY POWERS OVER THE RESERVES

1. The Secretary of State has power under Section 72 of the British Telecommunications Act 1981 to direct the Post Office to allocate to reserve generally or to reallocate for a specified purpose the whole or any part of any amount previously allocated by it to reserve. The specified purpose could be a requirement to invest in particular assets. The Secretary of State has not given the Post Office any direction to this effect.

2. There is no power in the legislation for any surplus cash element in the reserves to be paid into the Consolidated Fund. If that were envisaged, further legislation would be necessary, as envisaged in the third category described in the Treasury Minute on the PAC's Twentieth Report for 1979-80.

3. However, any direction that part of the reserve be applied to a specified purpose could result in a reduction in any call by the Post Office on the National Loans Fund or in its borrowing from other sources. Such reduction in calls by the Post Office on the NLF would result in an equivalent increased borrowing requirement elsewhere in the public sector as a result of the decrease in the level of Post Office lending.

4. The Secretary of State also has power under Section 37 of the Post Office Act 1969 to require the loans made by him to the Post Office to be repaid at such times as he may direct.

D MEANS BY WHICH MONEY IS TRANSFERRED IN THE CASE OF INDUSTRIES WITH A NEGATIVE EFL

When any industry achieves a negative EFL, the public sector borrowing requirement is reduced by that amount. A negative external financing figure would be the result of an excess of internally-generated cash over the agreed capital requirements. For an industry with debt to repay, it could be reflected in a net repayment of long-term loans, a net reduction over the year in temporary borrowing from the market, or (where the surplus funds are themselves considered to be temporary) a net increase in lending to the rest of the public sector.

E OTHER INDUSTRIES WITH ACCUMULATED SURPLUS CASH OR RESERVES

1. Accounting definitions vary, and it is not possible to produce a definitive list. In particular, the figures for net current assets shown in many industries' balance sheets may include a range of items — such as the balance of debtors over creditors and stocks of raw material that would normally be classed as working capital. In addition, the position has varied over time in most of the industries.

2. There are however only three industries apart from the Post Office whose latest accounts show positive net current assets which are associated with significant levels of short-term deposits. These are shown in the table overleaf:-

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[Continued]

<i>Industry</i>	<i>Date</i>	<i>Net current assets £ million</i>	<i>Short-term deposits (including certificates of tax deposits & cash) £ million</i>
British Gas Corporation	31 March 1981	567.9	143.7
British Transport Docks Board	31 December 1980	26.0	20.9
Scottish Transport Group	31 December 1980	2.8	6.1

In some cases the position will have changed since the latest published accounts, but it has not been the practice for any of the industries other than those above to accumulate surplus funds on a significant scale.

Letter from the National Federation of Sub-Postmasters to the Clerk to the Committee dated 14 April 1982 (PO17)

Herewith is the further written evidence as requested by the Select Committee.

In answer to Question 375 — out of a potential of 20,911 (being the number of Sub-Post Offices throughout the United Kingdom) 19,863 were members of the National Federation of Sub-Postmasters — the percentage membership therefore being 94.98 per cent.

In response to Question 384, we submit the following.

The publication 'Post Office Special Agent' contained the following statement.

"During the year April 1978 to March 1979 — for Child Benefit and Family Income Supplement (relatively low value benefits where the claimants tend to save up their foils and cash several at a time) the DHSS paid the Post Office 8.34p a foil, whereas for Supplementary Benefit it paid 15.63p. For Mobility Allowance, to take another example, it paid 13.4p; for Retirement Pension and Widows Benefit 16.16p and Non-contributory Invalidity Pension 17.60p. These amounts are subject to revision when final numbers, value and costs etc. are known and adjusting settlements are made between the DHSS and the Post Office."

The average value of a unit for Sub-postmasters during the above-mentioned period was 2.20 (based on an office earning 275,000 units) and therefore the differential can be worked out as set out below.

<i>Post Office received</i>	<i>Sub-postmasters received</i>
Child Benefit	8.34p
Supplementary Benefit	15.63p
Mobility Allowance	13.14p
Retirement Pension	16.16p
Invalidity	17.60p

We are not in a position to quote what the Post Office are at present receiving from the DHSS in such broken-down form, but the average value of the unit at the same 275,000 point is now 3.19p. Therefore, for—

Child Benefit	Sub-postmasters receive $3.19p \times 2 = 6.38p$
Other Benefits	Sub-postmasters receive $3.19p \times 3 = 9.57p$

We feel that if the information could be provided it would give a much better example than Motor Vehicle Licence business, which is only conducted at 7.1 per cent of offices which tend to be larger offices where the value of the unit is rather less than the average of 3.19p.

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[Continued]

On a more general basis, Annex A sets out the apportionment of the costs to operate the network of counters including Crown Offices. These figures were supplied by the Post Office's Financial Department, and show that Sub-postmasters receive 38 per cent of the total costs in remuneration, leaving 62 per cent for all other costs. Of that 62 per cent Crown Office counter service costs 30.1 per cent.

Those figures demonstrate that—

38% to Sub-postmasters

30% to Crown Office counter service

32% to pay for the control supervision etc., as listed also in Annex A.

Mr Dearing—in answer to Question 90 by Mr Maxwell-Hyslop—stated that 60 per cent of income was earned over SPSO counters.

Colin Baker

Annex 'A'

Forecast costs for 1980/81 as at September 1980 are as follows:

	£m	£m	%
1. Main Network Costs			
Sub-postmasters remuneration	175.2	38.2	
Sub-postmasters administration	10.2	2.2	
Crown counter service	138.3	30.1	
Crown counter balancing	20.6	4.5	
Main stock	9.0	2.0	
Remittance control	17.0	3.7	
Remittance Conveyance	18.3	4.0	
Bank runs	2.7	0.6	
Cash account	12.1	2.6	
Headquarters administration	10.5	2.3	
	413.9	90.2	
2. Financial Costs			
Bank charges	14.9	3.2	
Use of Surplus Cash	29.0	6.3	
	44.9	9.5	
3. Miscellaneous Costs			
SPSO security	0.3		
Other	0.9		
	1.2	0.3	
	459.0	100.0	

28 April 1982]

[Continued]

Extract from letter from the National Federation of Sub-Postmasters
to the Committee dated 26 April 1982

As you will be aware the evidence given to the above Committee by the Post Office and the Department of Industry has now been published. On reading the evidence I find that incorrect information in regard to the number of Sub-Post Offices is contained in both documents.

They both contain the statement that 3000 Sub-Post Offices are allowed at present to undertake the sale of Motor Vehicle Licences, whereas in fact the number is just under 1500. The confusion has probably been about by the fact that there are approximately 3000 post offices *in total* carrying out this work. Included in the 3000 is the total network of Crown Offices (approximately 1000) all of which issue Motor Vehicle Licences.

Colin Baker

Letter from the Chairman, Securicor to the Clerk to the Committee
dated 5 April 1982 (PO15)

I refer to paragraphs 444 and 445 of the evidence given by Securicor's Managing Director, Mr Towle, to the Committee's enquiry on the future of the Post Office, which I have just seen on my return to London. The Committee enquired whether Sir William Barlow replied to my letter which suggested that a licence might be granted to carriers such as Securicor, conditional upon letters carried being stamped and cancelled.

To the best of my recollection, no substantive reply was received from Sir William Barlow, and this is confirmed by inspection of our correspondence file, which does not contain evidence of any response.

Peter Smith
Chairman

HOUSE OF COMMONS
INDUSTRY AND TRADE
COMMITTEE

Session 1981-82

THE POST OFFICE

MINUTES OF EVIDENCE

Wednesday 3 March 1982

THE POST OFFICE

*Mr R E Dearing, CB, Mr S Wainwright,
Mr C E Beauchamp, CBE and Mr R A Clinton*

*Ordered by The House of Commons to be printed
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Session 1981-82

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MINUTES OF EVIDENCE

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DEPARTMENT OF INDUSTRY

*Mr Kenneth Baker, MP, Mr A J Mantle and
Mr M A R Lunn*

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Session 1981-82

THE POST OFFICE

MINUTES OF EVIDENCE

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POST OFFICE USERS' NATIONAL COUNCIL

Mr J A Morgan, Mr J Heath and Mr K Timmins

MAIL USERS' ASSOCIATION

Mr R Fairlie and Mr M Corby

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Session 1981-82

THE POST OFFICE

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POST OFFICE UNIONS' COMMITTEE

*Mr Maurice Styles, Mr Roland Worth
Mr Fred Bowerman and Mr Colin Baker*

ASSOCIATION OF INTERNATIONAL AIR COURIER
SERVICES

Mr N Nelson, Mr M D Thompson and Mr Bertie Coxall

SECURICOR LIMITED

Mr P F H Towle and Mr Peter Skeen

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Session 1981–82

Appendices